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**Forecasting the Future:  
What's in Store for Public Fund Investors  
June 7, 2010**

# Economic Outlook

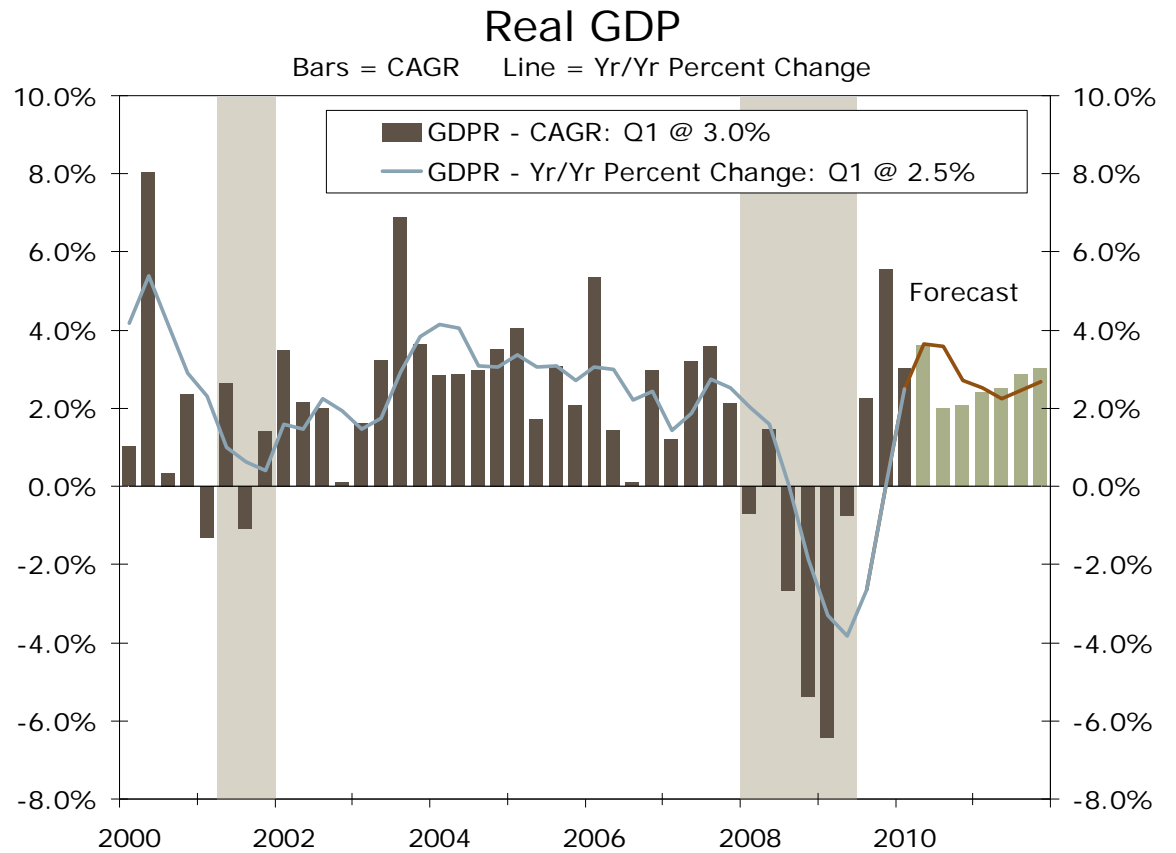
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Mark Vitner  
Senior Economist  
Wells Fargo Securities, LLC



# Economic Growth

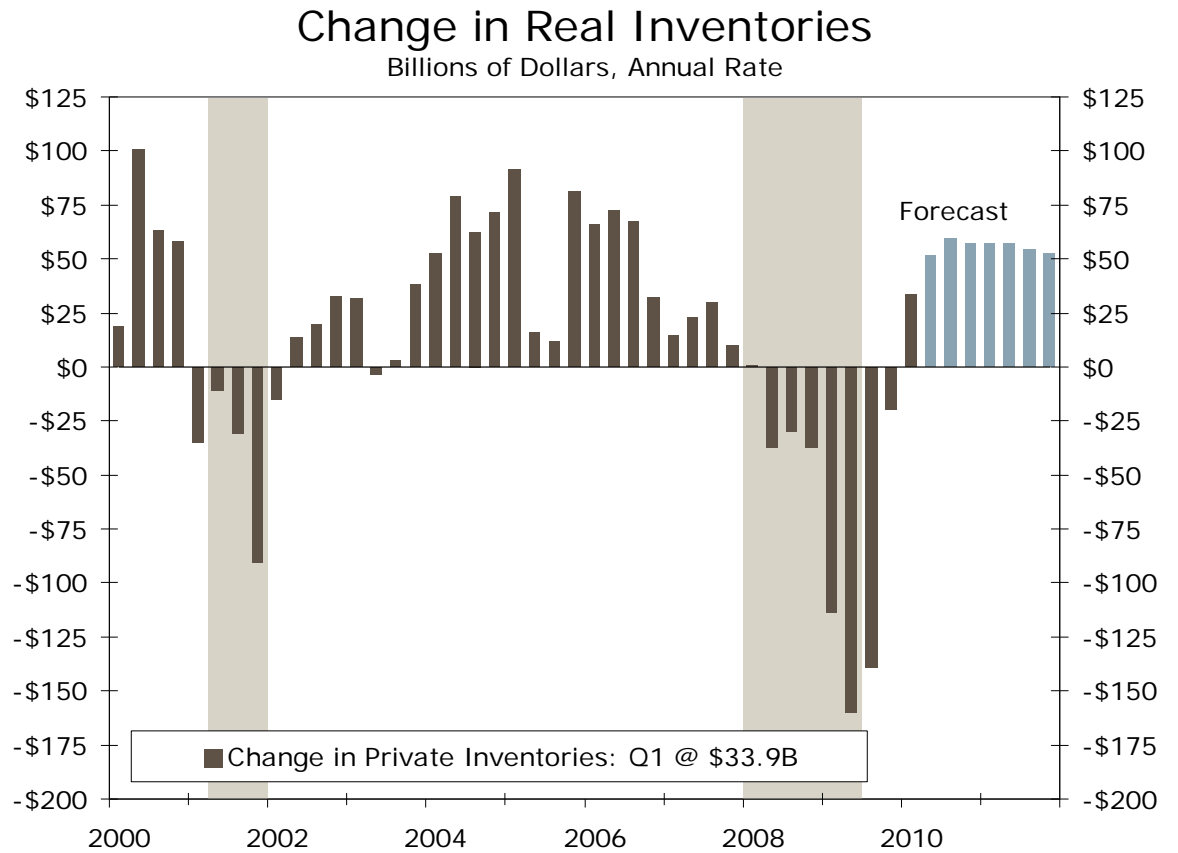
Real GDP has received a boost from fiscal and monetary stimulus and the winding down of inventory liquidations



Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

# Inventories

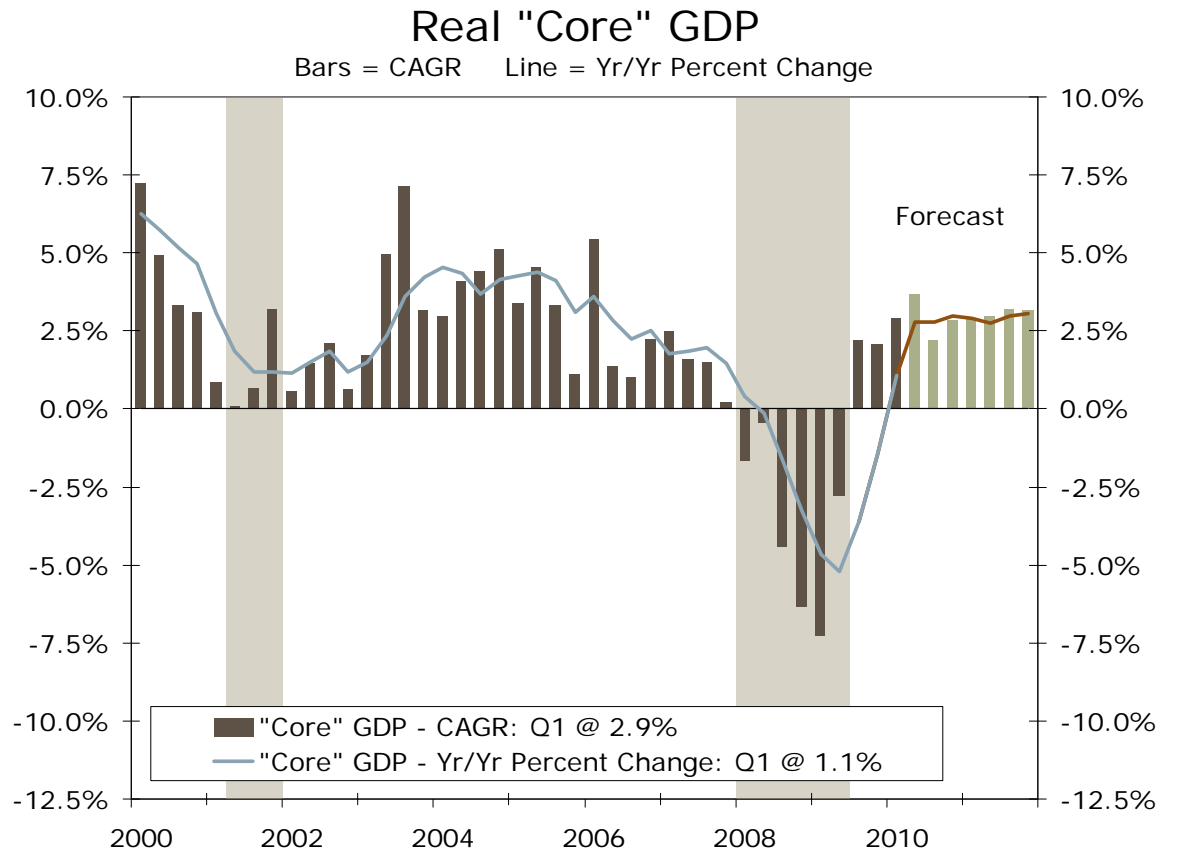
Businesses are finally bringing inventories back in line with underlying demand



Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

# Domestic Demand

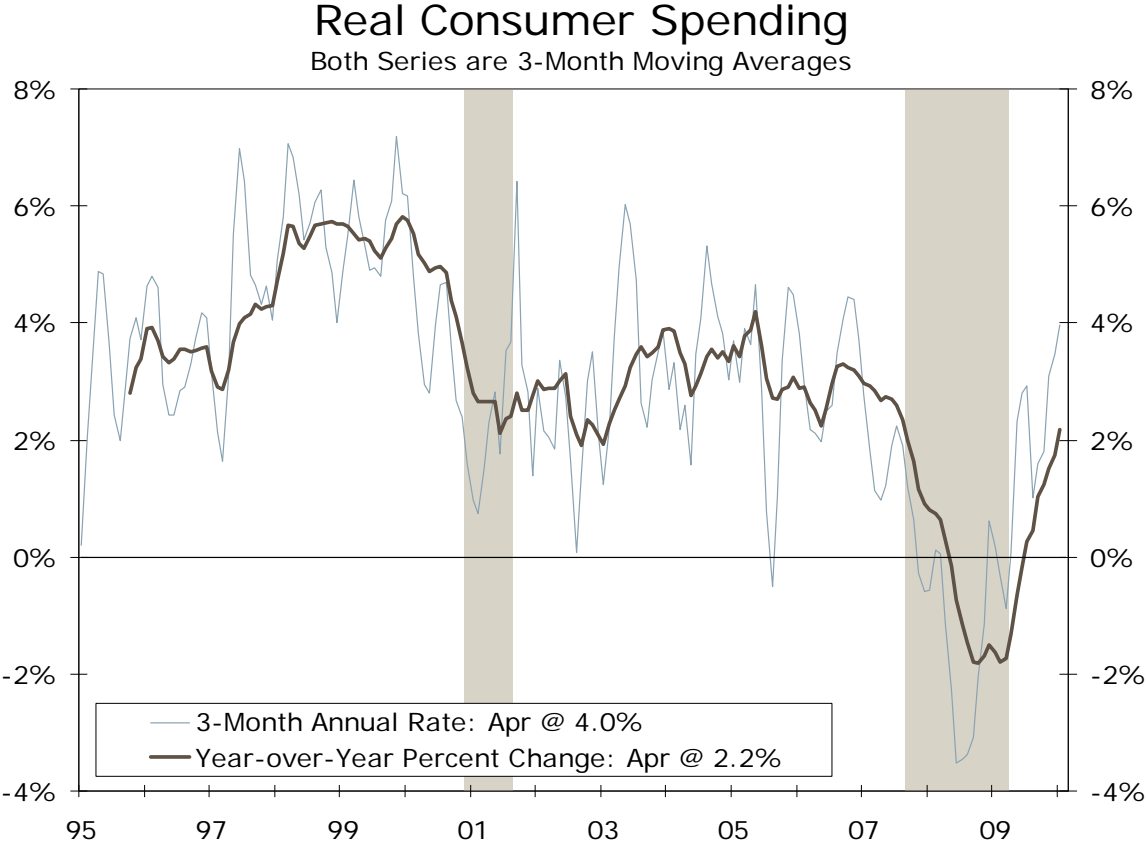
Stimulus dollars have helped boost private demand



Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

# Real Consumer Spending

Spending has improved in recent months but remains at a relatively low growth rate

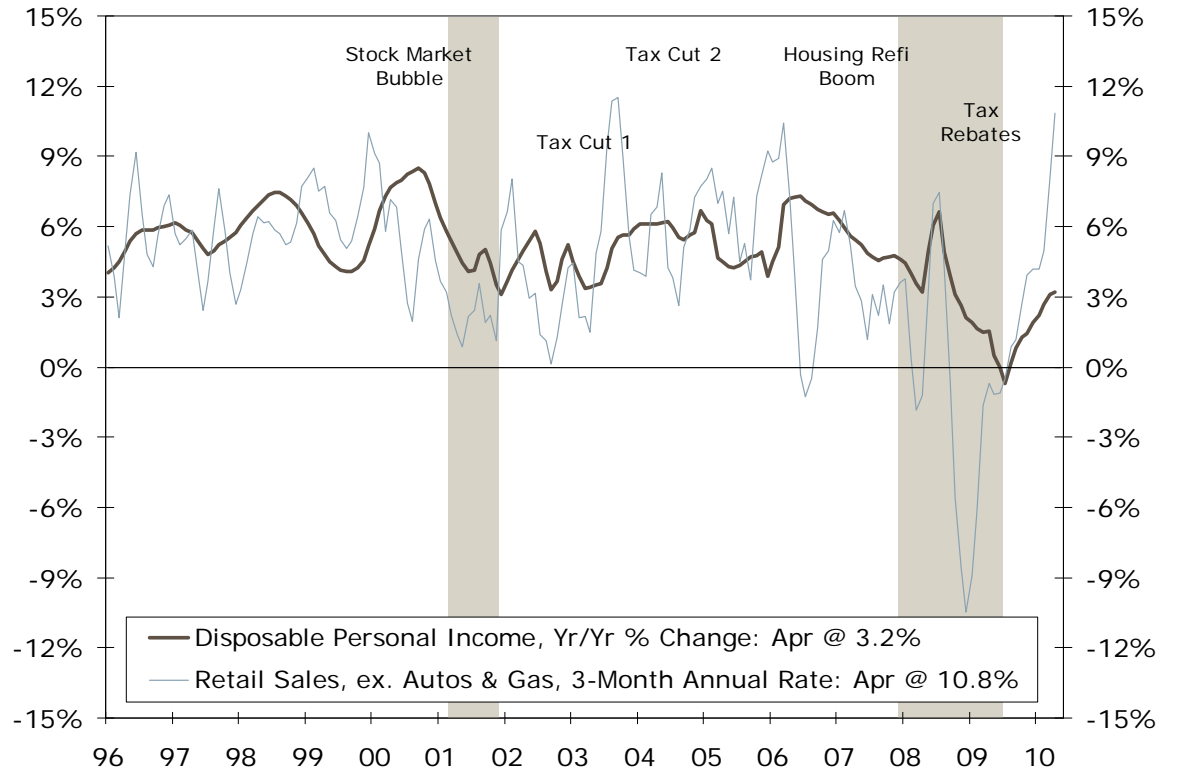


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

# Consumer Spending

Core retail sales are rising faster than after-tax income. Tax refunds may be providing an added boost to spending.

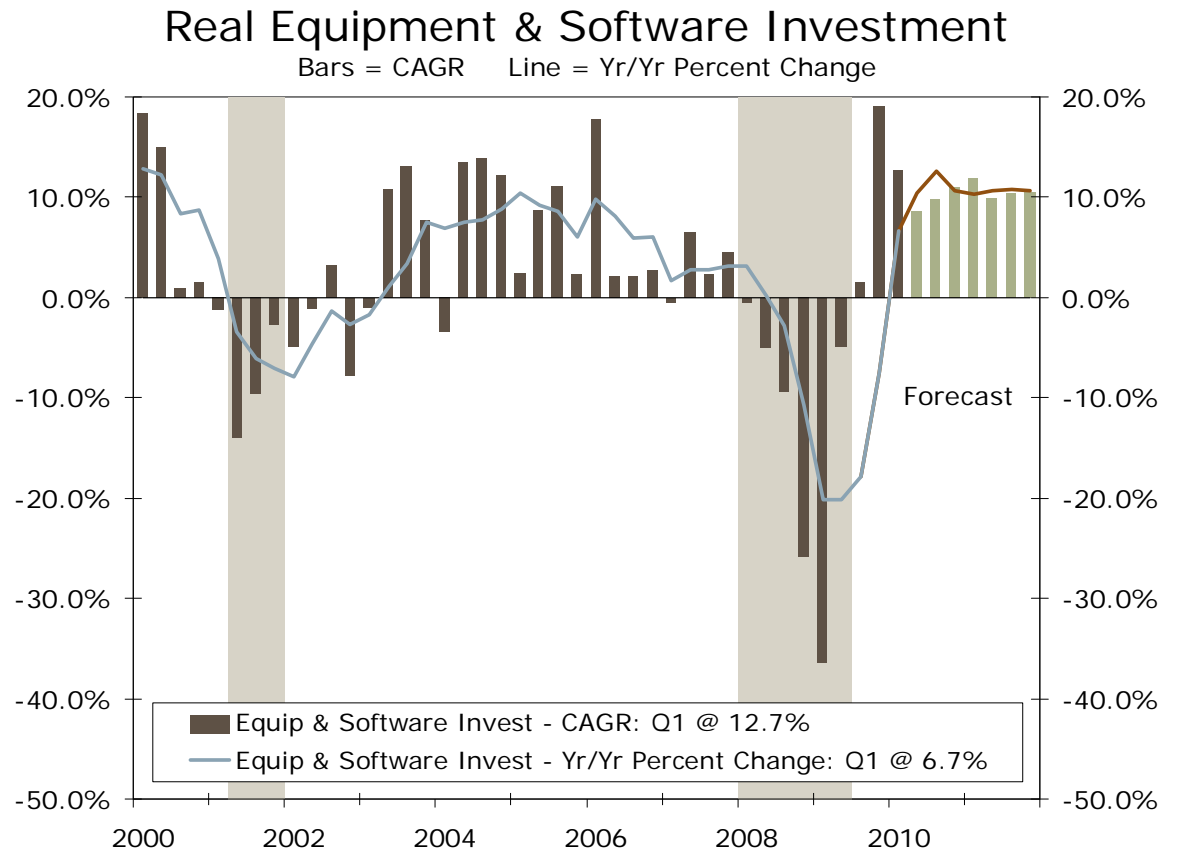
### Retail Sales Ex. Auto & Gas Stations vs. Income 3-Month Moving Average



Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

# Equipment & Software Investment

Demand for equipment and software has already turned positive and is expected to make a larger contribution to economic growth this cycle

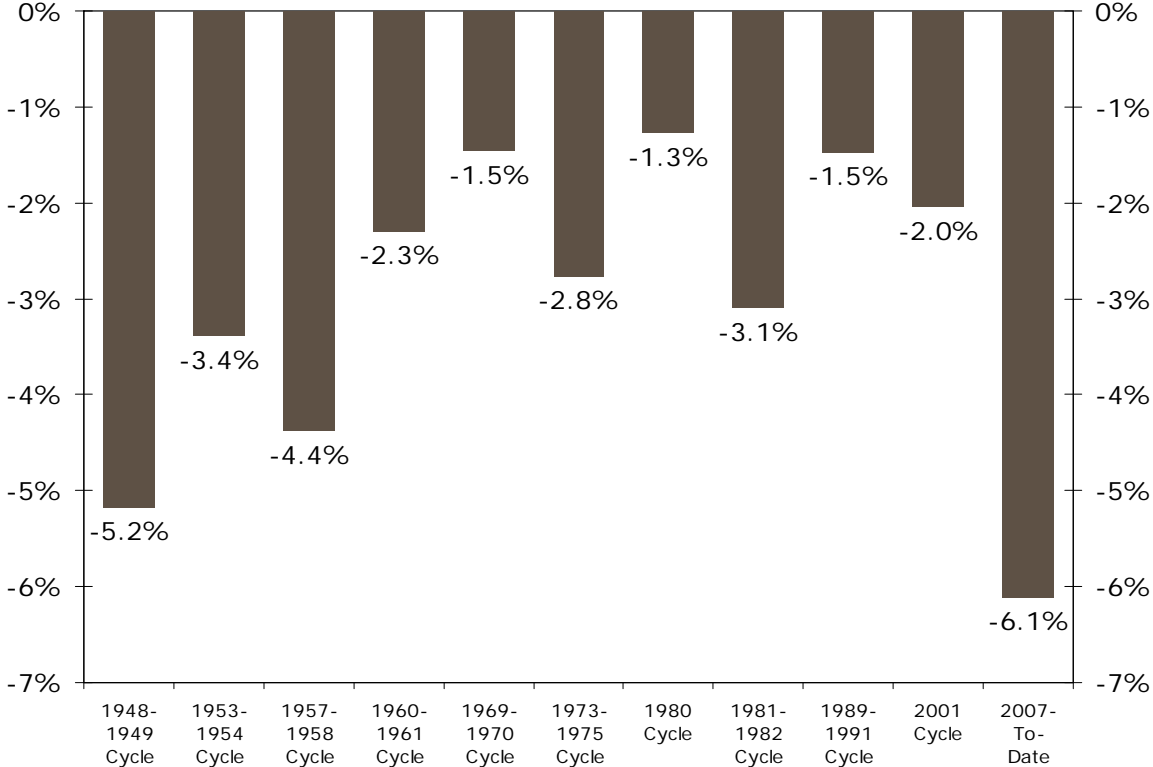


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

The labor market remains the primary concern as job losses have exceeded every post-World War II downturn

### Employment Change in Recessions

Percentage Change Peak-to-Trough

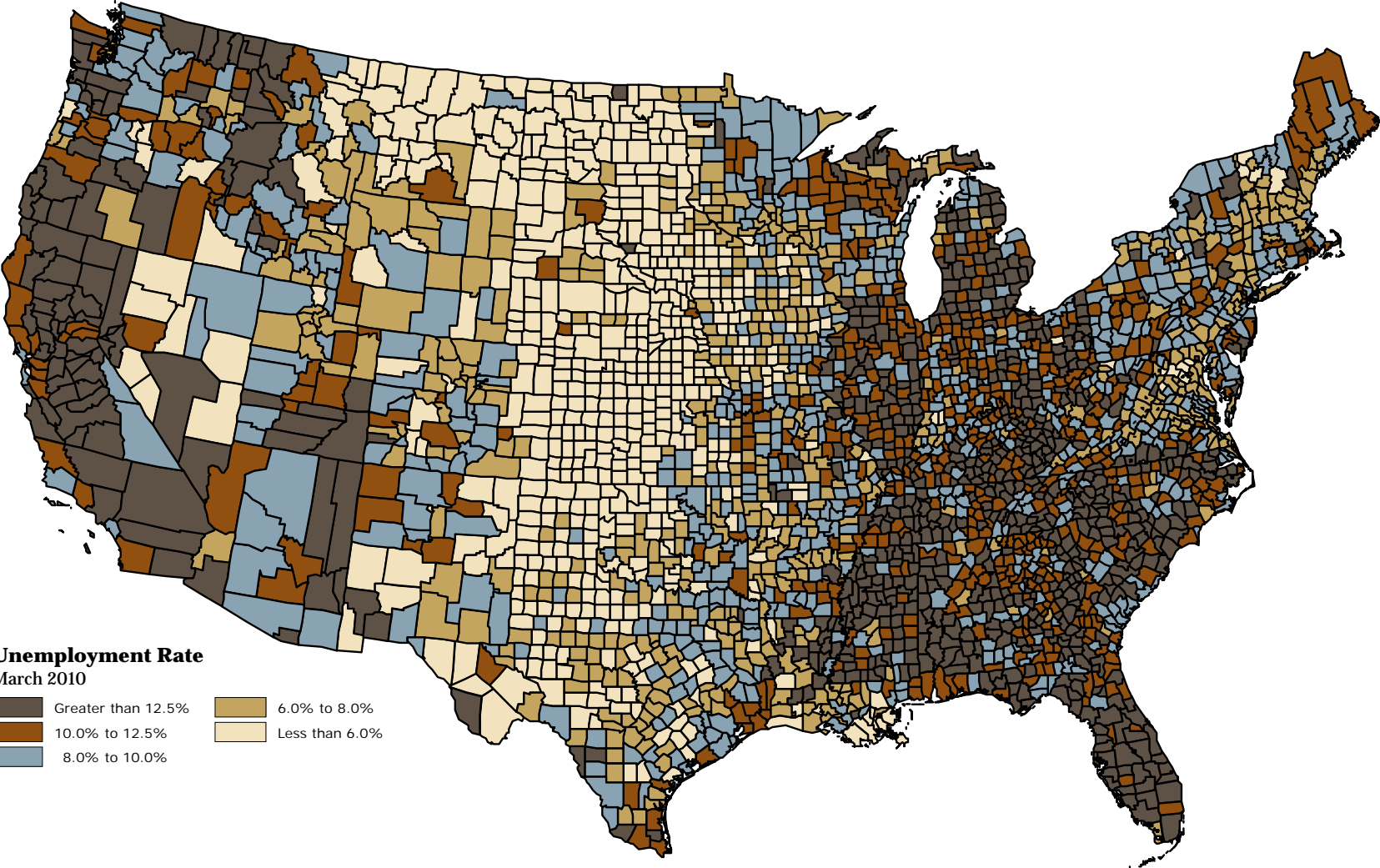


Source: U.S. Department of Labor and Wells Fargo Securities, LLC

# Unemployment by County

Large Portions of the United States Continue to Face Serious Unemployment Issues

## Unemployment Rate



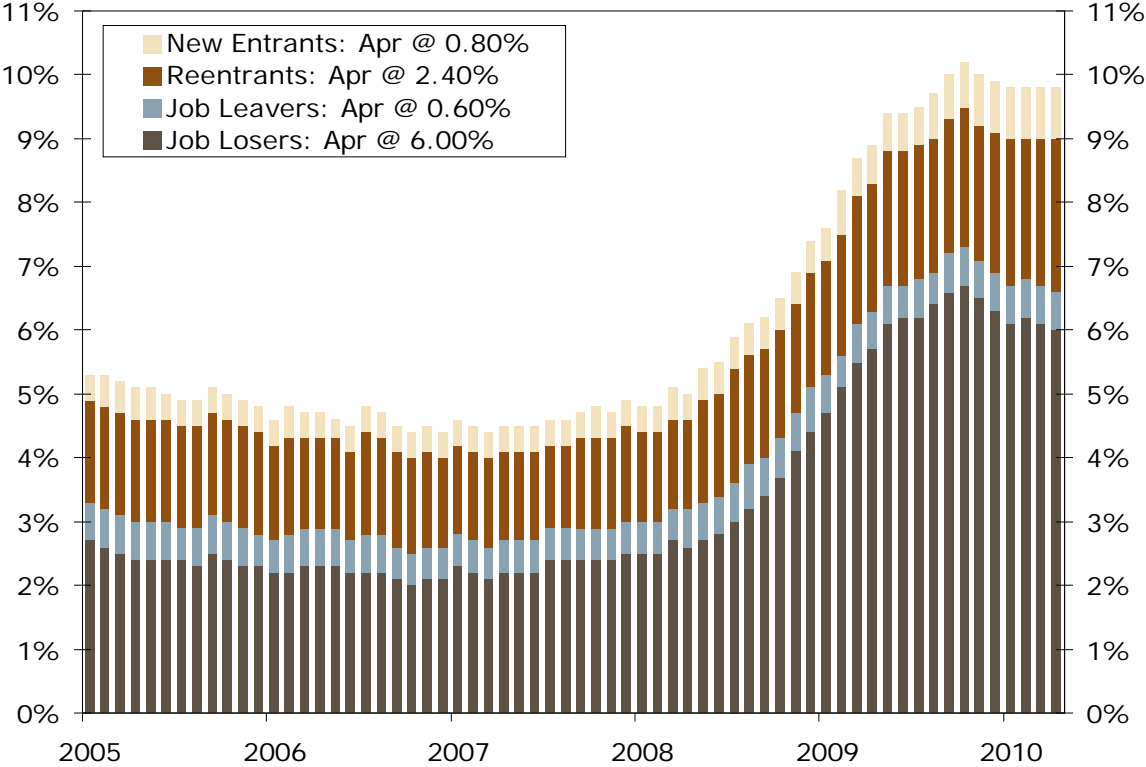
Source: US Department of Labor and Wells Fargo Securities, LLC

# Reason for Unemployment

Reentrants and new entrants will likely account for a larger share of the unemployment rate

### Unemployed by Reason for Unemployment

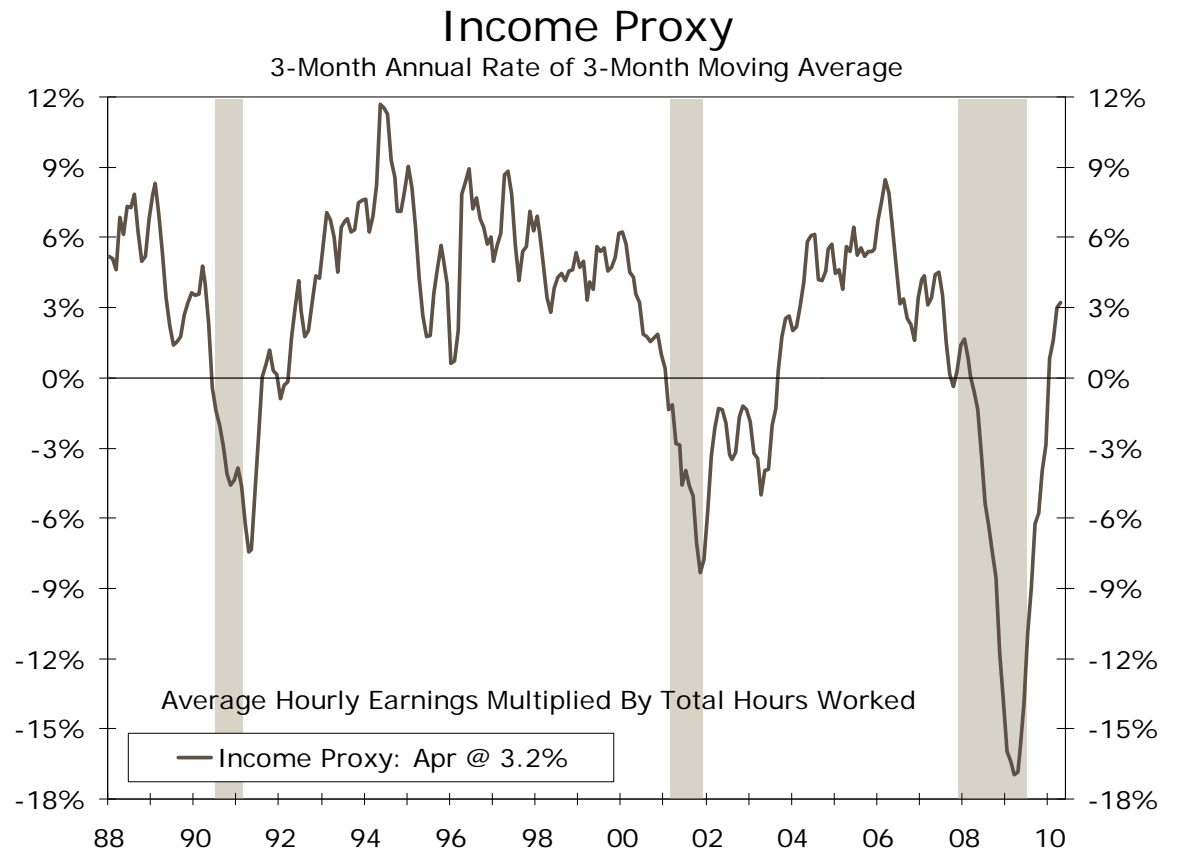
As a Percent of the Civilian Labor Force



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

## Income Proxy

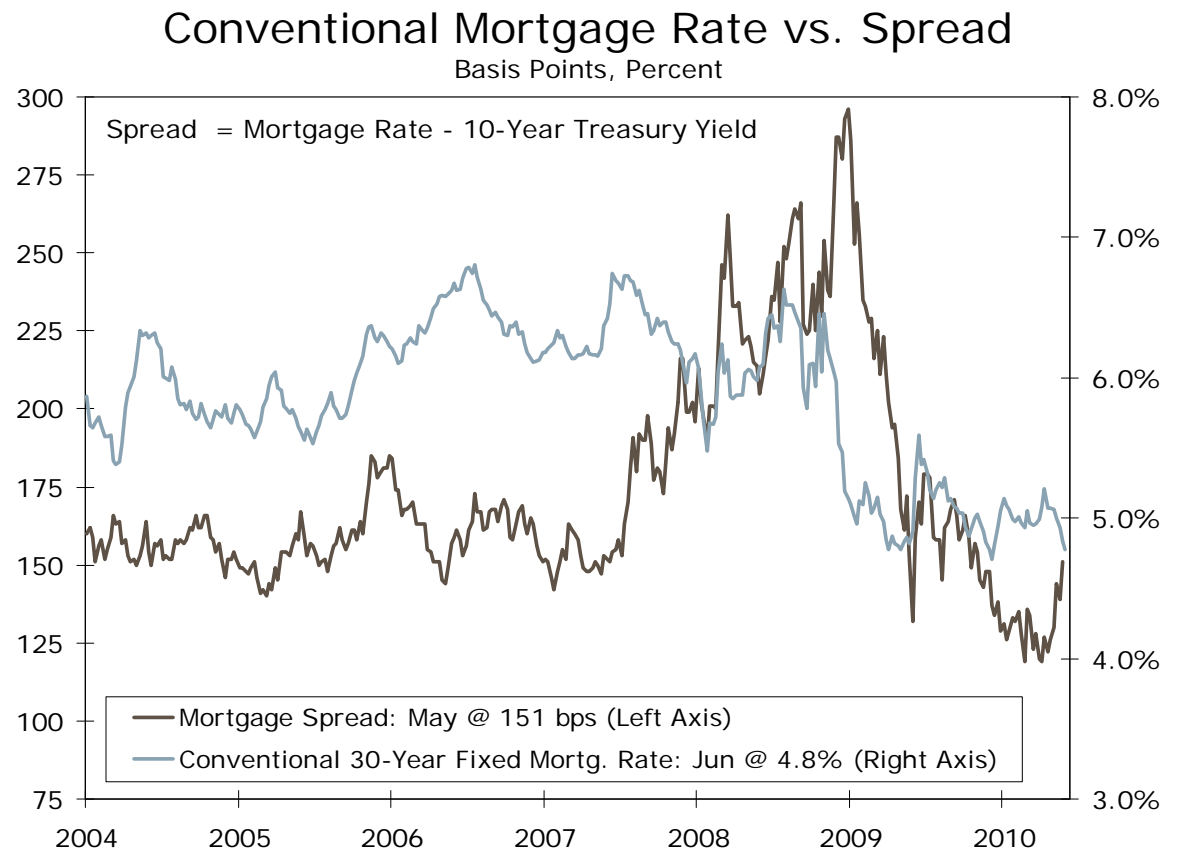
Income earned from work has fallen more than 15 percent since the recession began. Modest growth is already returning.



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

## Mortgage Rates

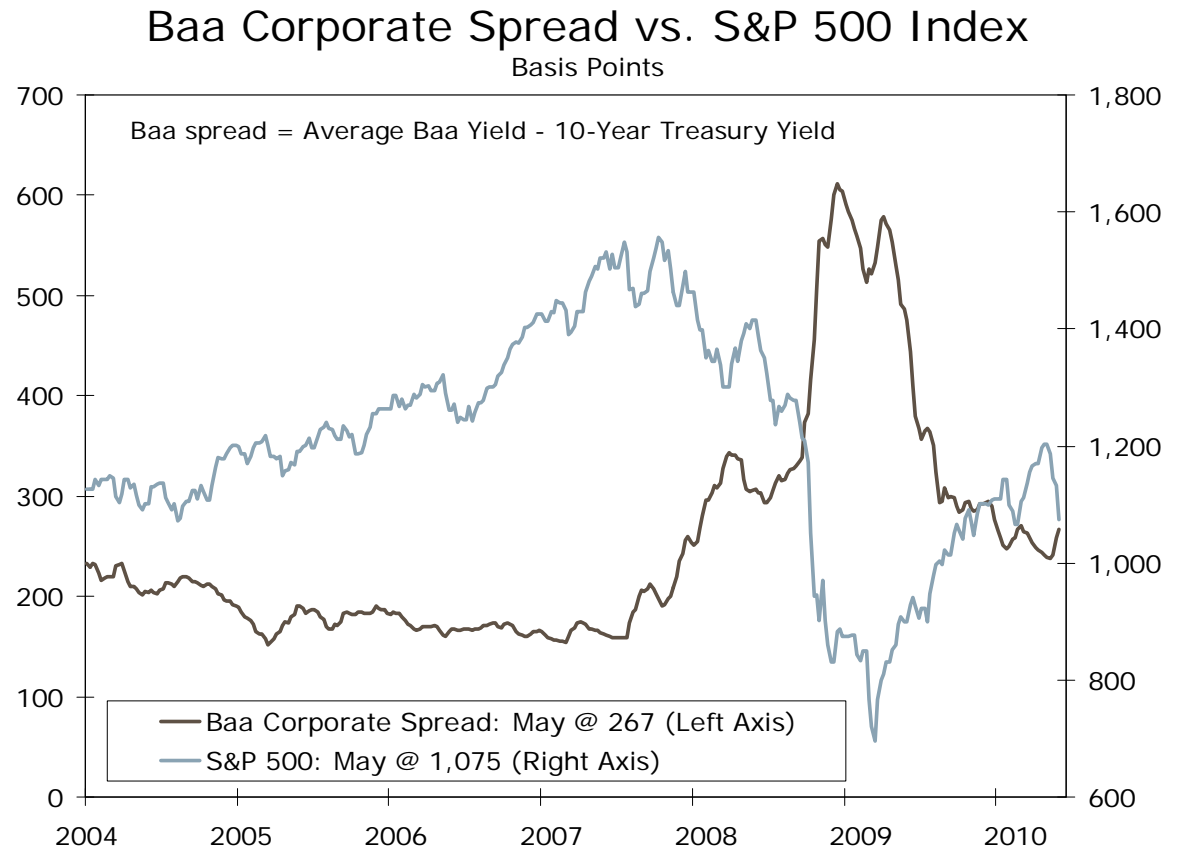
Mortgage rates were pushed lower by the Fed's intervention in the MBS market. Now that the Fed purchase program has ended, how much will spreads widen?



Source: Freddie Mac, Federal Reserve Board and Wells Fargo Securities, LLC

# Corporate Bond Spread

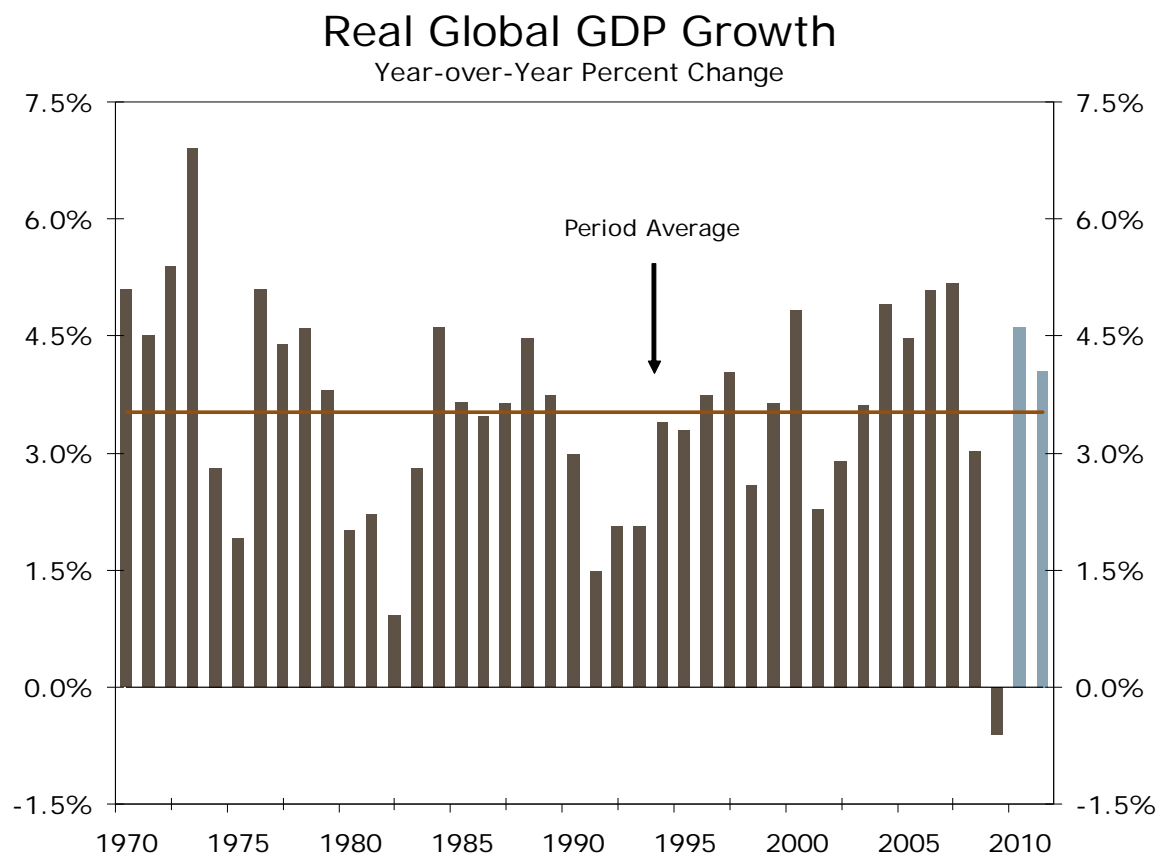
The Baa corporate bond spread has come down substantially since the Fed began its quantitative easing policy and the stock market has rallied



Source: Federal Reserve Board, Moody's, S&P Corp. and Wells Fargo Securities, LLC

## The Global Recession

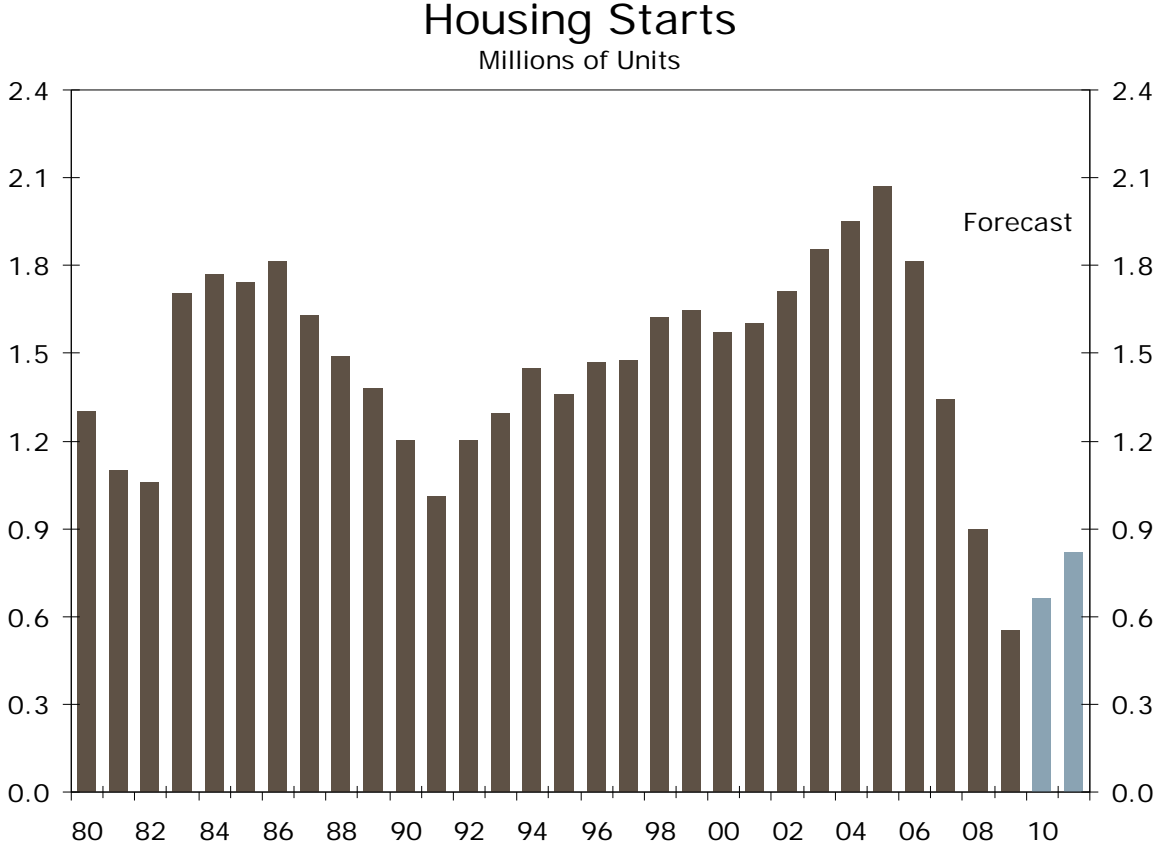
The global economy contracted for the first time in 2009, but is expected to rebound solidly this year. Risks remain in China, Europe and the developing world.



Source: International Monetary Fund and Wells Fargo Securities, LLC

# Homebuilding

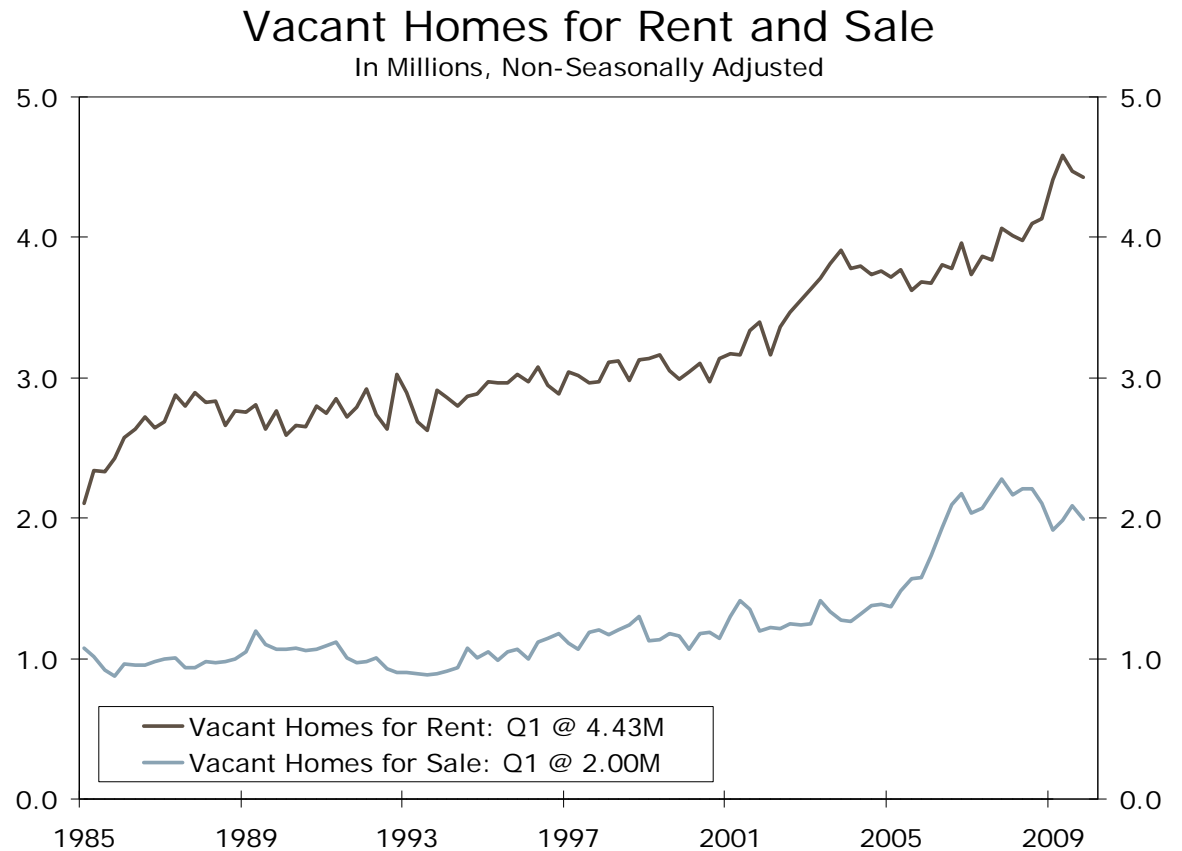
Housing starts bottomed about a year ago and are set to rise modestly over the next few years



Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

## Vacant Homes for Rent and Sale

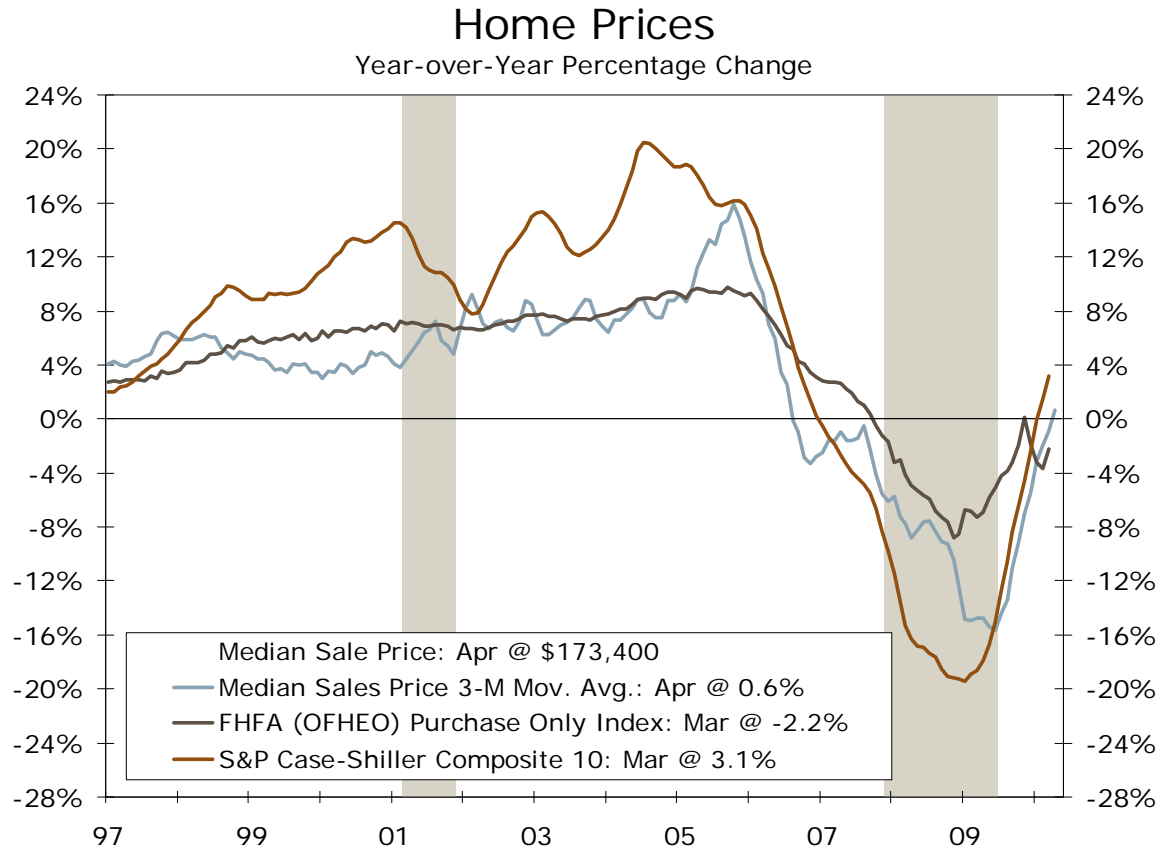
The number of vacant homes for rent has risen faster than the number of vacant homes for sale has fallen



Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

# Home Prices

Home prices appear to have bottomed. Prices may be influenced by the persistence of various mortgage moratoriums and stimulus programs.



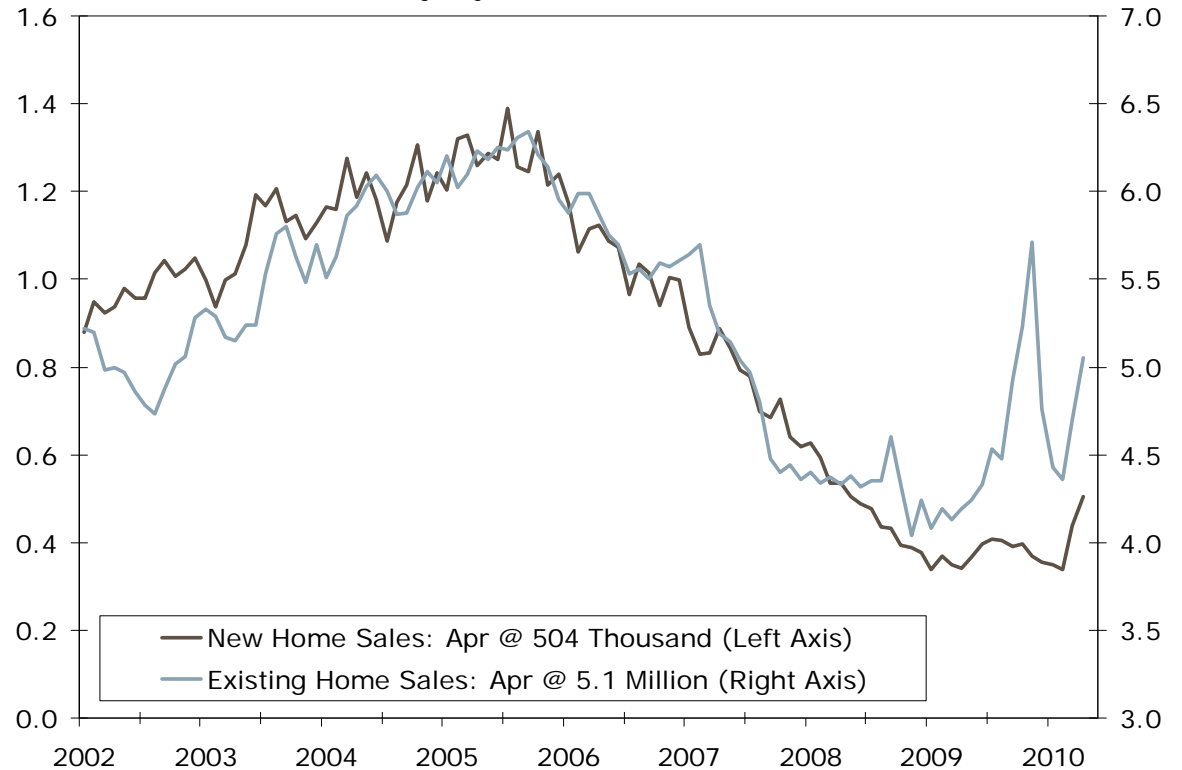
Source: Federal Housing Finance Agency, National Association of Realtors, S&P Corp. and Wells Fargo Securities, LLC

# Home Sales

Incentives for first-time homebuyers helped drive up home sales last year. A large portion of existing sales, however, are distressed sales. Sales have since fallen back to pre-incentive levels or less.

## Existing & New Single Family Home Sales

Seasonally Adjusted Annual Rate - In Millions



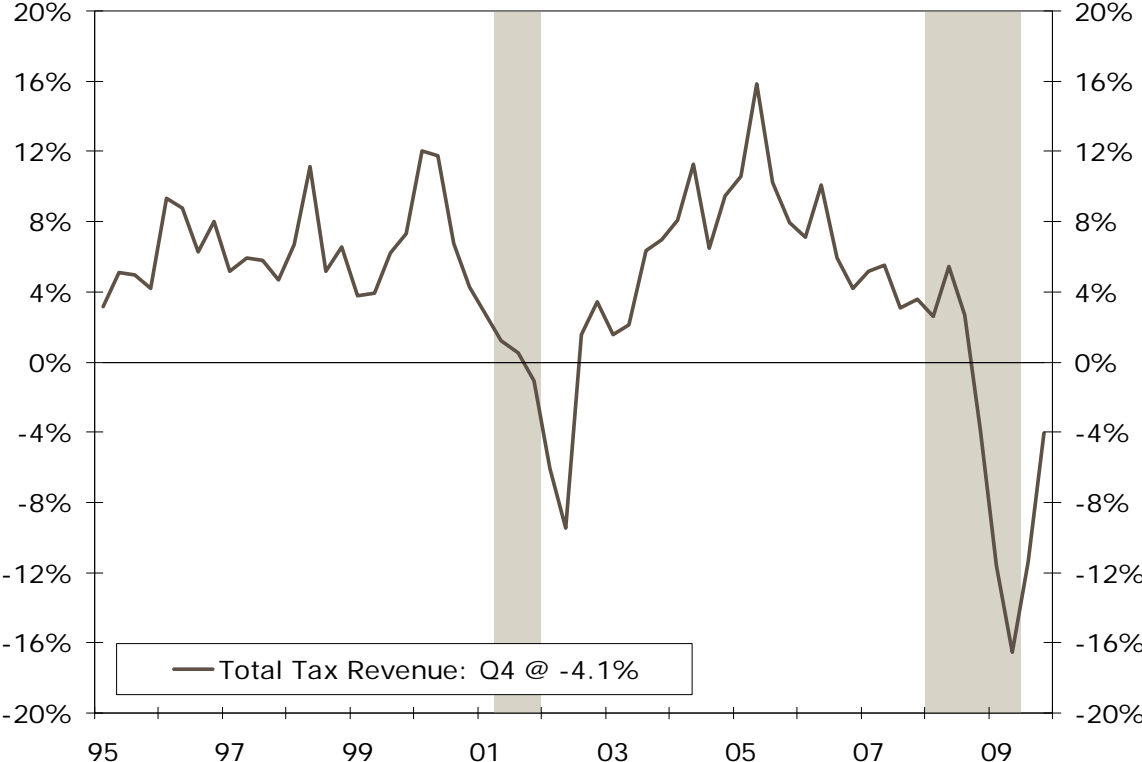
Source: National Association of Realtors, U.S. Department of Commerce and Wells Fargo Securities, LLC

# State & Local Government

State and local government tax revenues have declined markedly due to the economic slowdown

## State & Local Government Tax Revenue

Year-over-Year Percentage Change

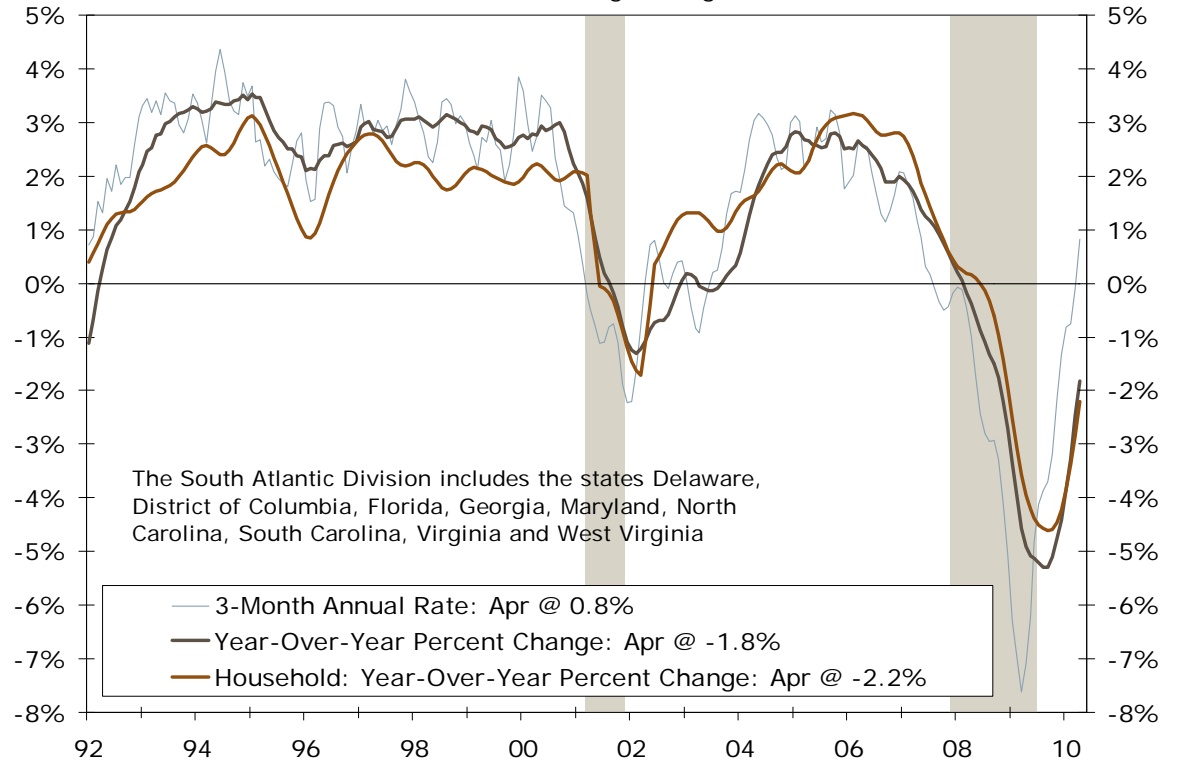


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

# South Atlantic Division

Employment conditions have begun to turn up

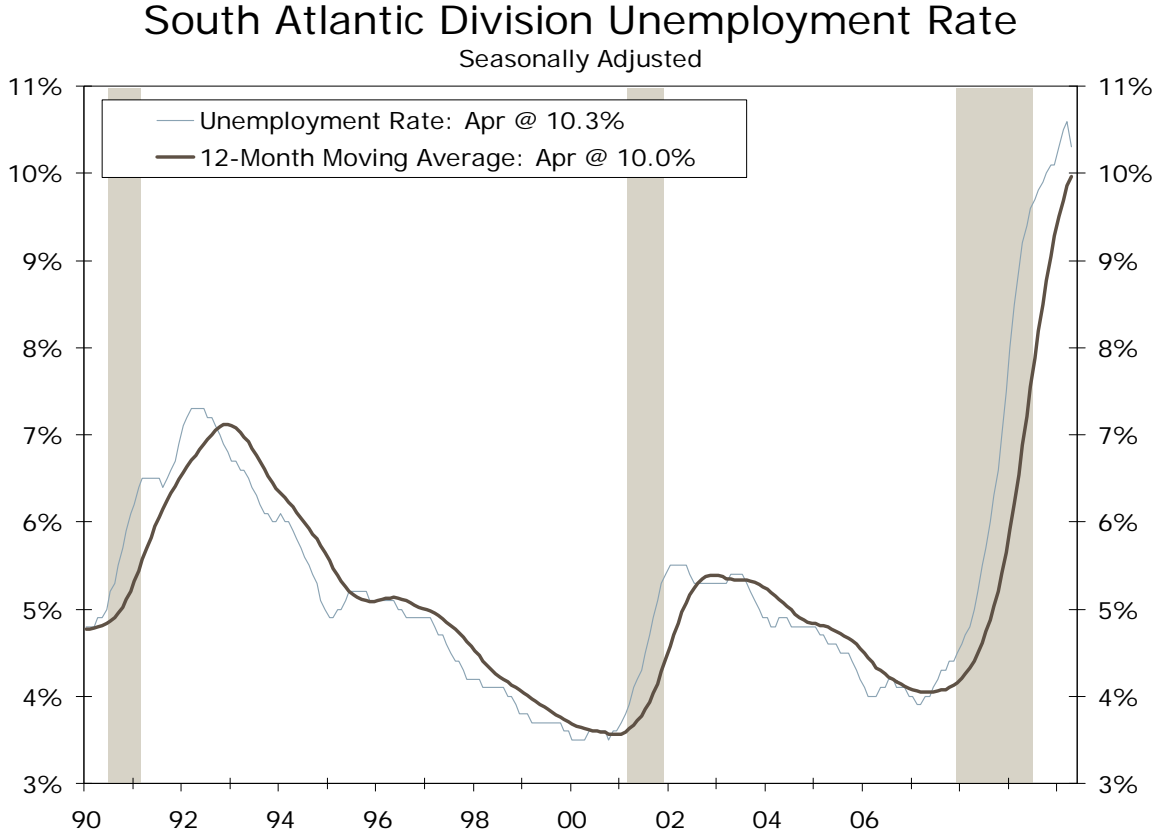
## South Atlantic Division Nonfarm Employment 3-Month Moving Averages



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

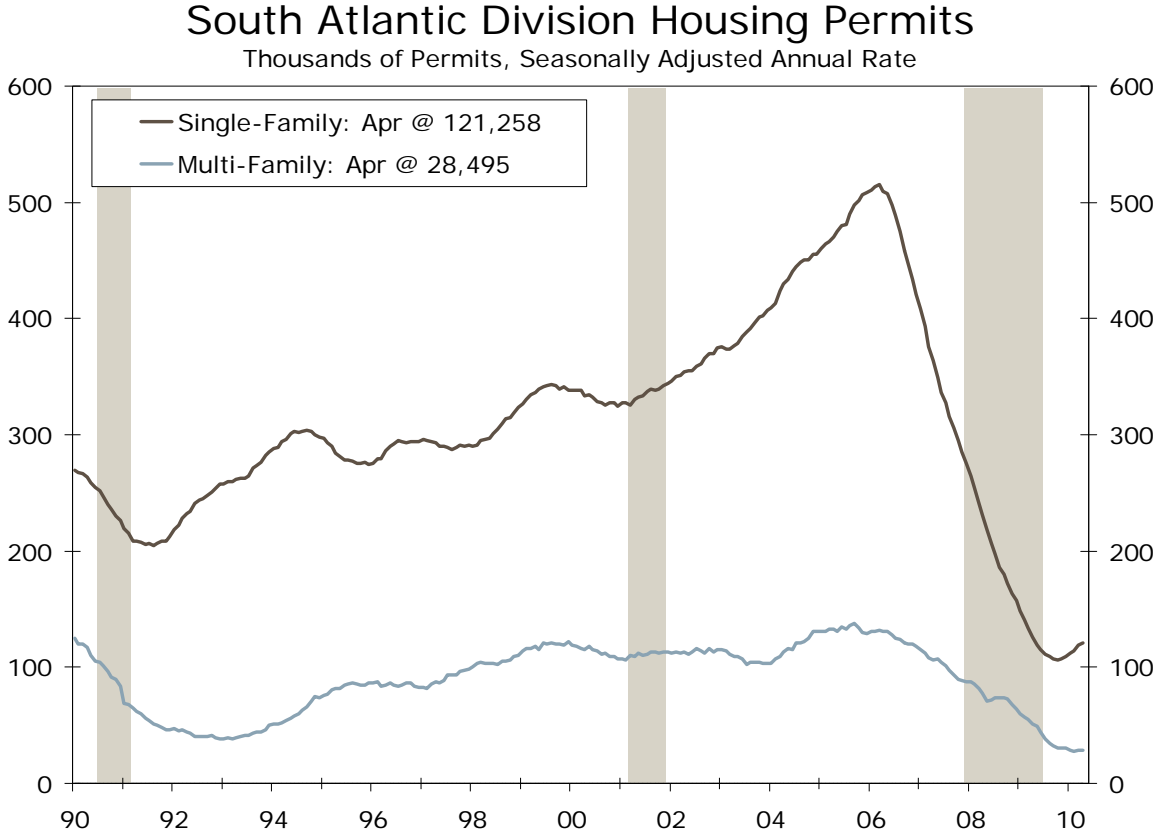
# South Atlantic Division

The unemployment rate remains elevated, however



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Single-family home construction turned up recently likely due to the homebuyers' tax credit

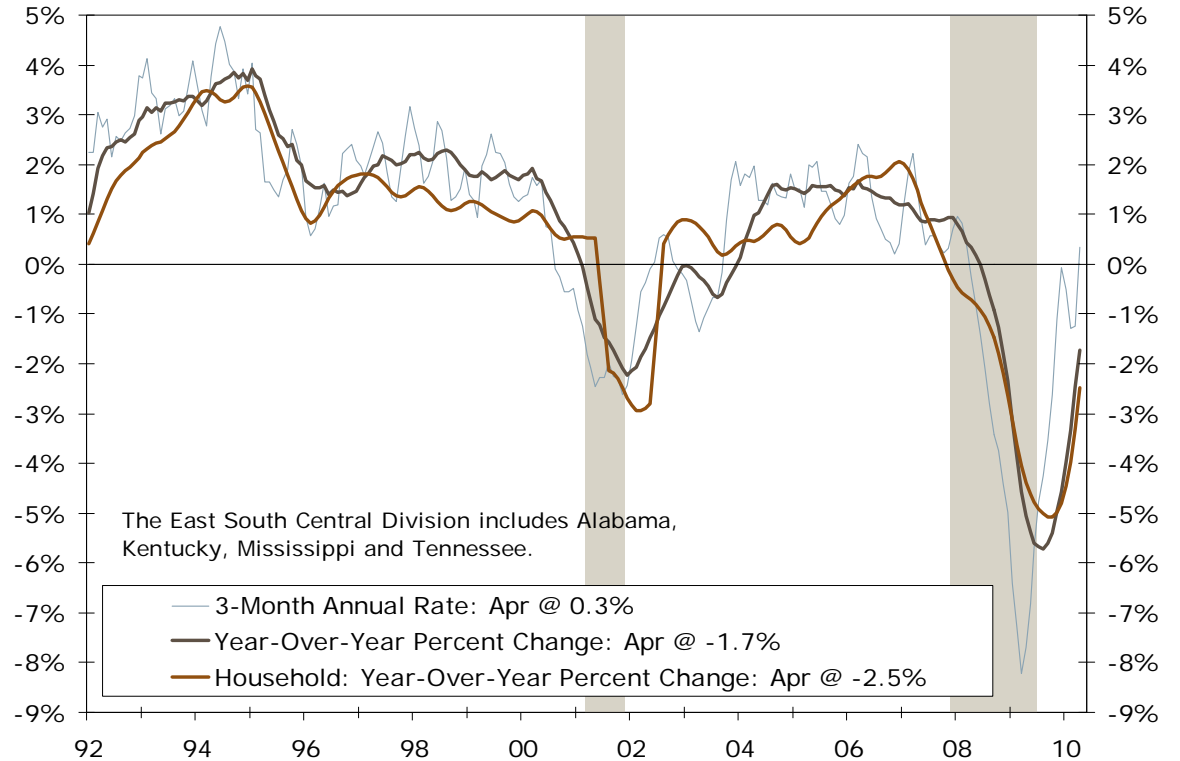


Source: U.S. Department of Commerce and Wells Fargo Securities, LLC

# East South Central Division

The severe job losses are behind us and employment has increased for the last three months

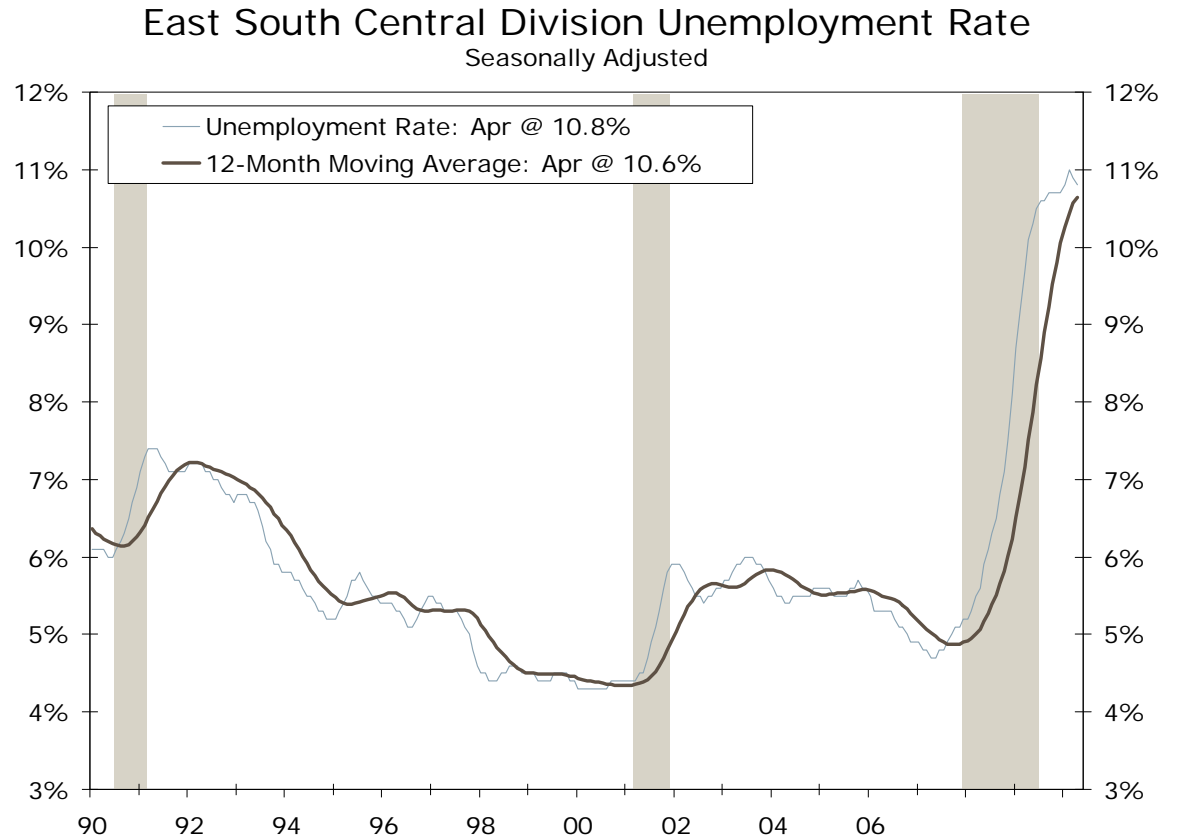
### East South Central Division Nonfarm Employment 3-Month Moving Averages



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

# East South Central Division

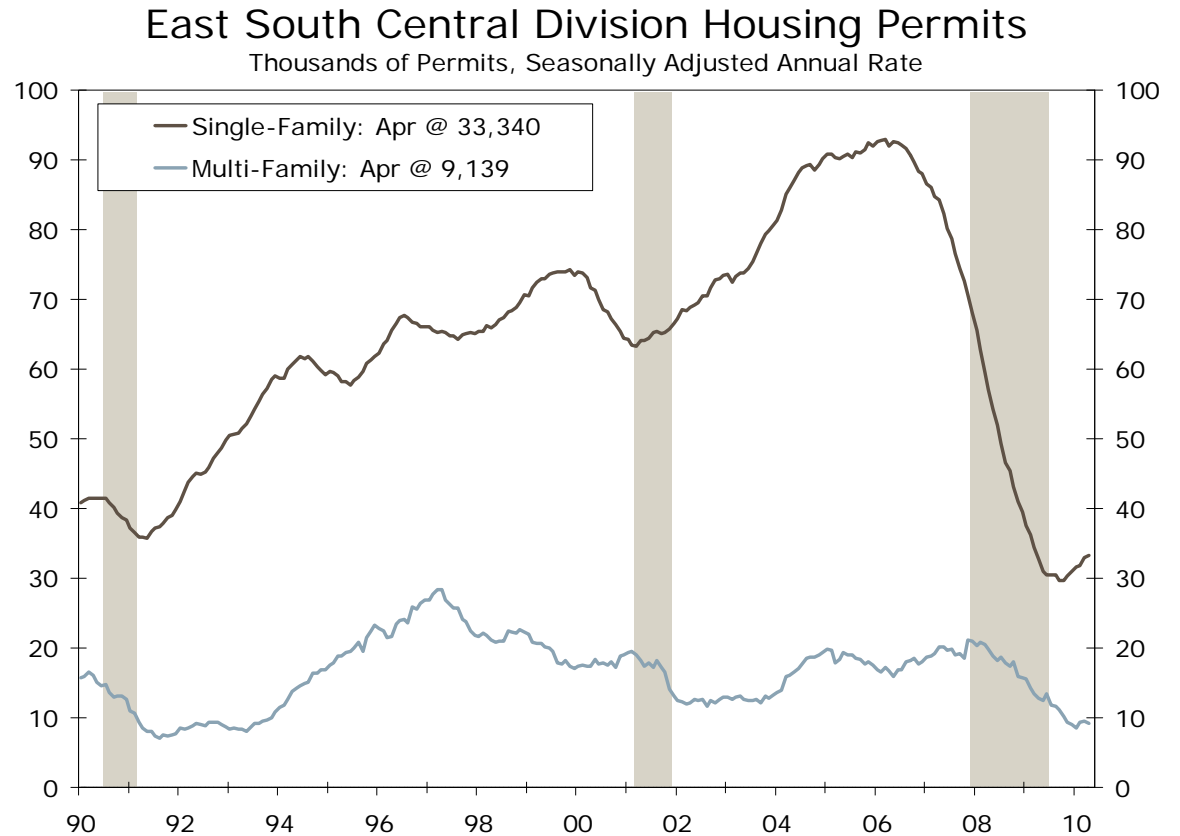
The unemployment rate remains high



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

# East South Central Division

Housing construction has begun to turn up but continue to remain at very low levels



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

## A Sampling of Our Recent Special, Regional & Industry Commentary

To view any of our past research  
please visit:  
[http://www.wellsfargo.com/  
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### Recent Special Commentary

Date	Title	Authors
June-02	Will Europe Pull Down Asia?	Bryson & Kamaruddin
May-25	Commercial Real Estate Chartbook: Quarter 1	Vitner, Khan & Kamaru.
May-21	Mexican GDP Rebounds in First Quarter	Aleman
May-10	European Union Moves to Put Out Greek Fire	Bryson
April-28	North Carolina Outlook	Silvia, York & Whelan
April-20	Character of Recovery II: Differences Persist	Silvia & Iqbal
April-14	Housing Chartbook: April 2010	Vitner & York
April-06	Does Another Debt Crisis Await Argentina?	Aleman
March-23	A Few Brief Comments on Healthcare Reform	Silvia & Vitner
March-16	Reflections on 25 Years Following the U.S. Economy	Vitner
March-10	Treasury Outlook: A Closer Look	Silvia, York & Whelan
March-08	State Finances Poised to Face a Tough Road Ahead	Vitner, Khan & Kamar.
February-24	Character of Recovery: Yes, It Is Very Different	Silvia & Iqbal
February-22	Is Greece the Tip of the Iceberg?	Bryson
February-17	Commercial Real Estate Chartbook: Quarter 4	Vitner, Khan & Kamar.
February-12	Housing Chartbook: February 2010	Vitner & York
February-09	Texas Economic Outlook: February 2010	Aleman & Vitner
February-05	The Long Road Ahead for Greece (and Others)	Bryson
February-01	Employment: Growth is Finally Coming	Silvia, York & Whelan
January-28	2010: Year of the Tiger or Asian Bubble?	Bryson & Kamaruddin
January-28	U.S. and Chinese Labor Markets: Interdependencies	Silvia
January-12	Colorado Economic Outlook: January 2010	Anderson & Kashmarek
December-31	Georgia Economic Outlook: December 2009	Vitner & Kamaruddin
December-31	Florida Economic Outlook: December 2009	Vitner & Kamaruddin

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Forecasting the Future: What's in Store for

Public Fund Investors

Atlanta, Georgia June 7, 2010



Government Finance Officers Association

**104th GFOA  
Annual Conference**

Regional Update for the Southeastern States  
and Canada

Michael Chriszt



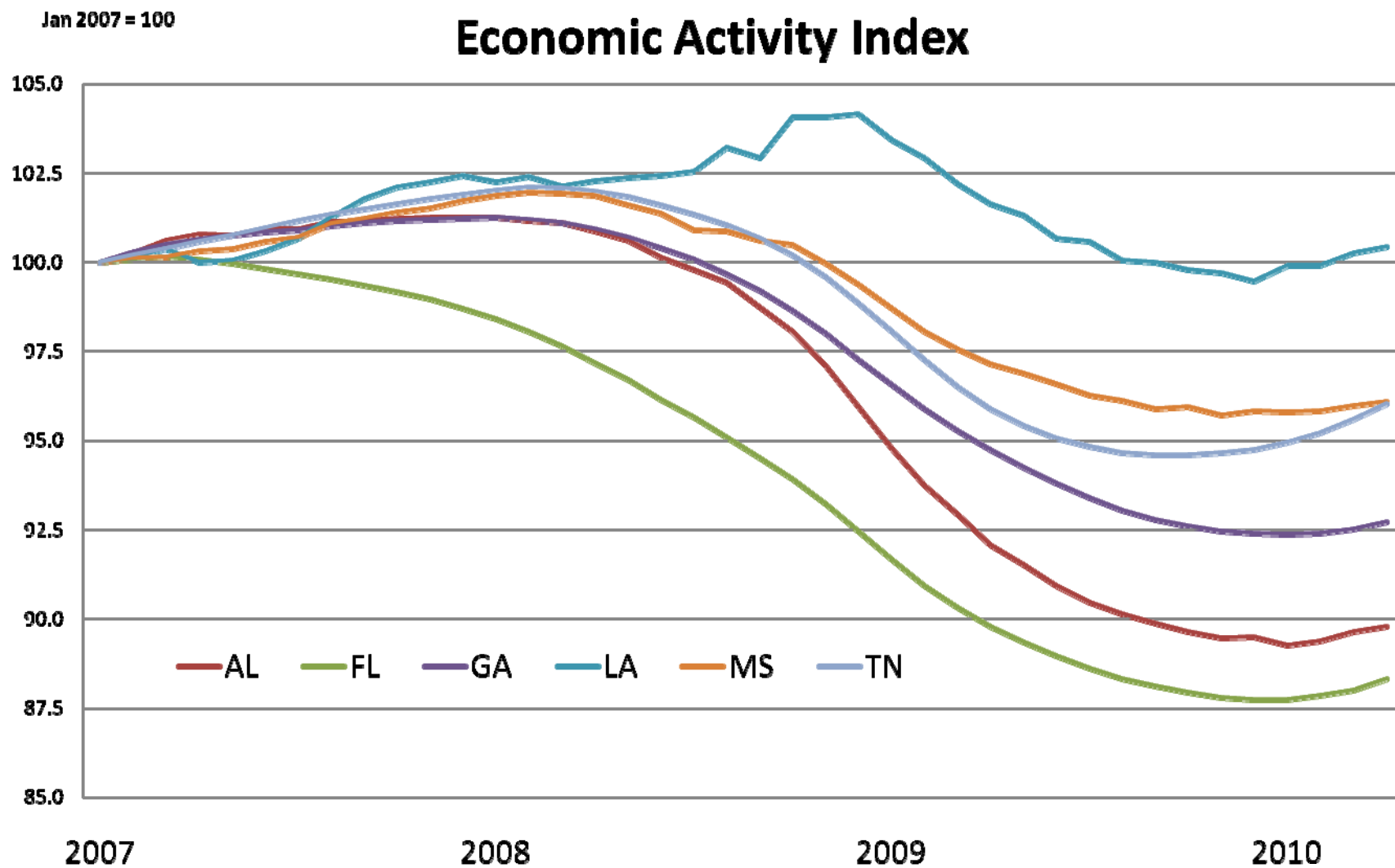
**FEDERAL  
RESERVE  
BANK  
of ATLANTA**

# Overview

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- The Regional Economy is Recovering,
  - At comparably low levels of activity.
- Employment Indicators are Improving,
  - But we have a long way to go.
- Retail Activity is Expanding,
  - Is it sustainable of pent-up demand?
- Residential Real Estate is Stabilizing,
  - At historically low levels.
- State and Local Budgets Likely to Remain Under Stress for Some Time.

# Regional Economic Activity turned up in Q1

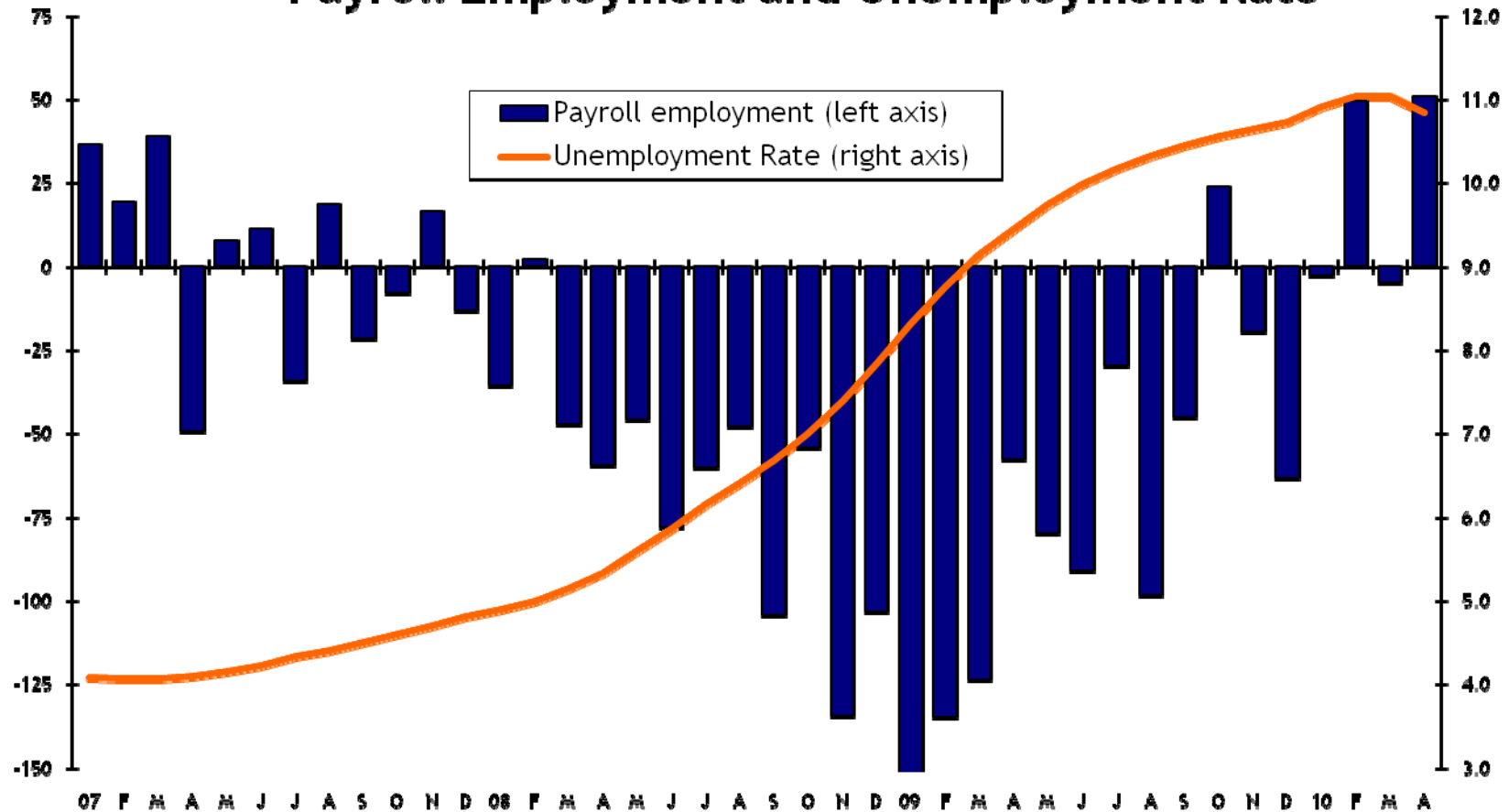


# Regional Employment Increased and the Unemployment Rate Declined in April

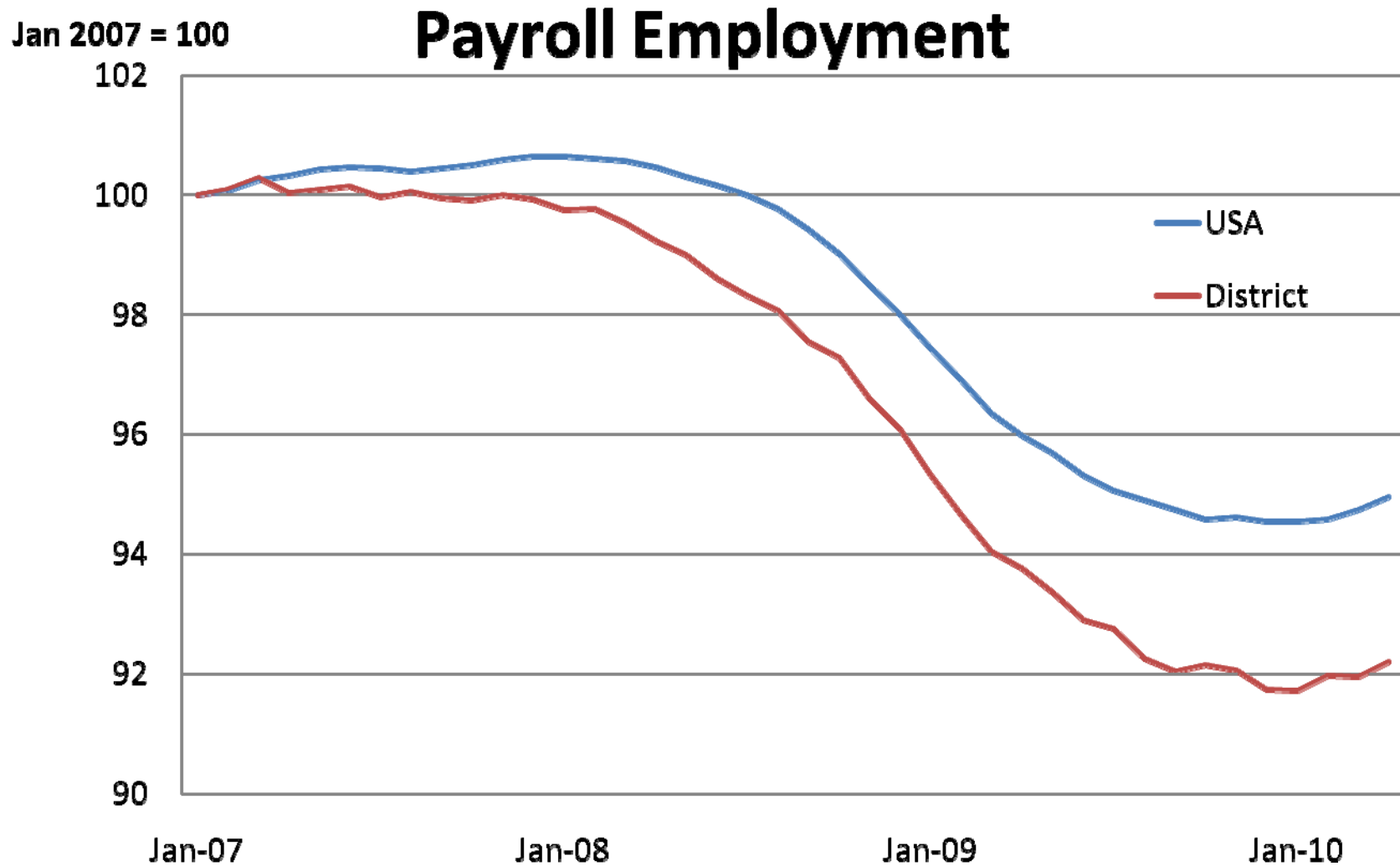
M/M net change in total employment, thousands

% of labor force

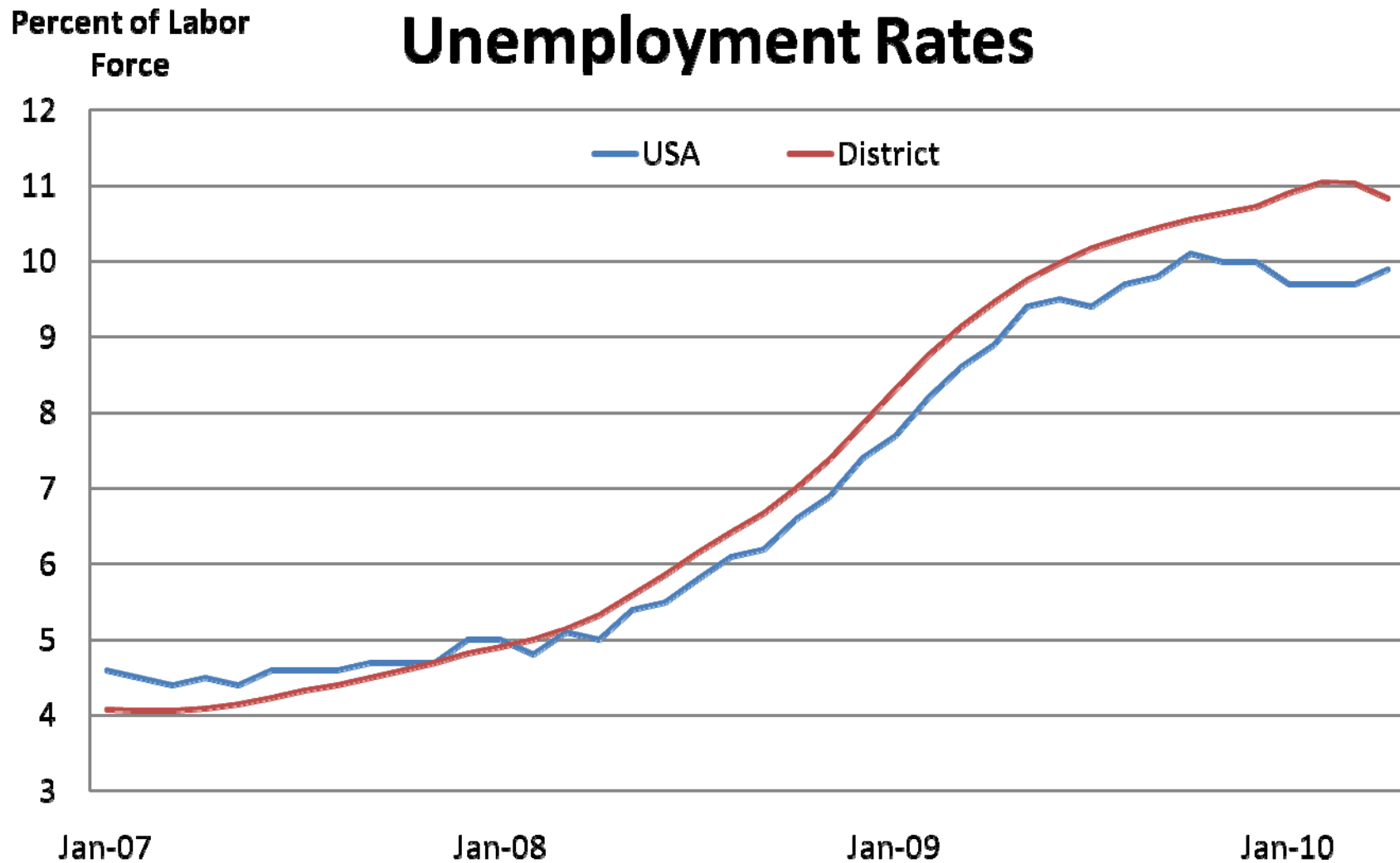
## Payroll Employment and Unemployment Rate



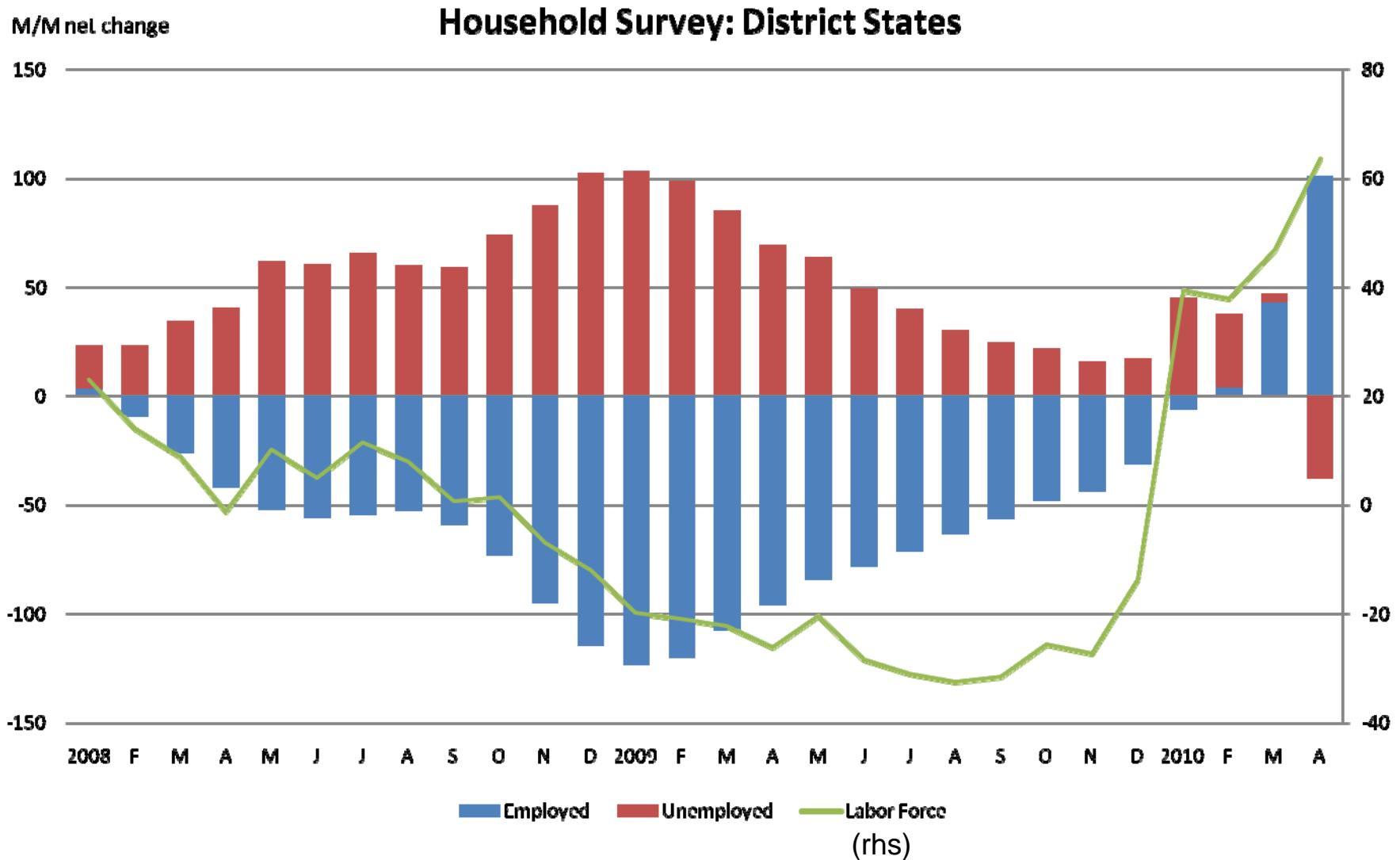
# But the Region lags the Nation in Jobs



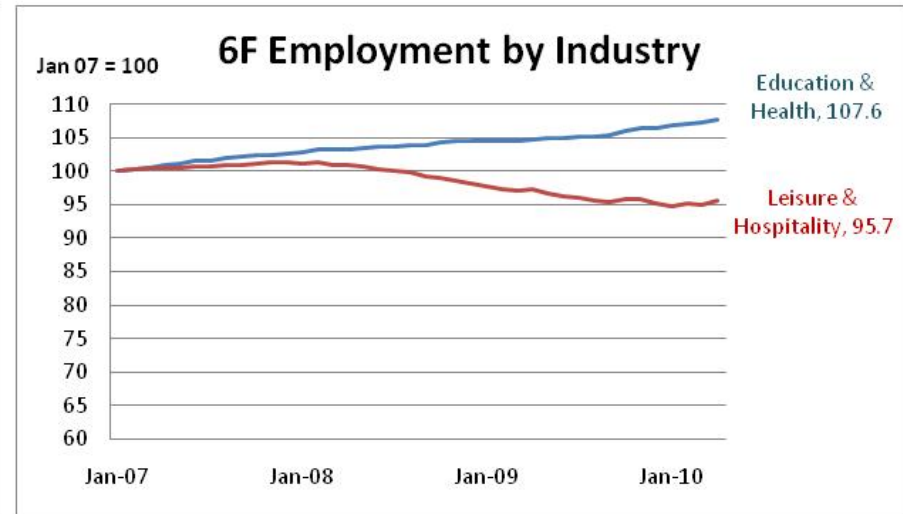
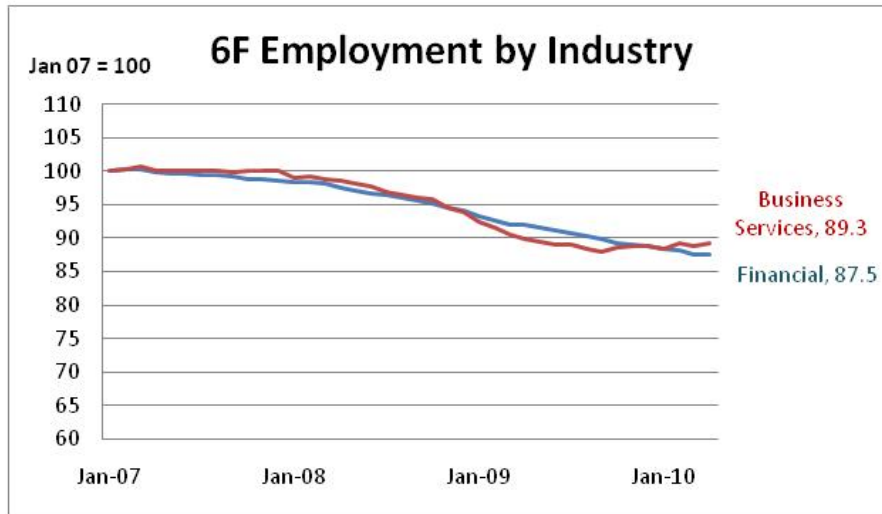
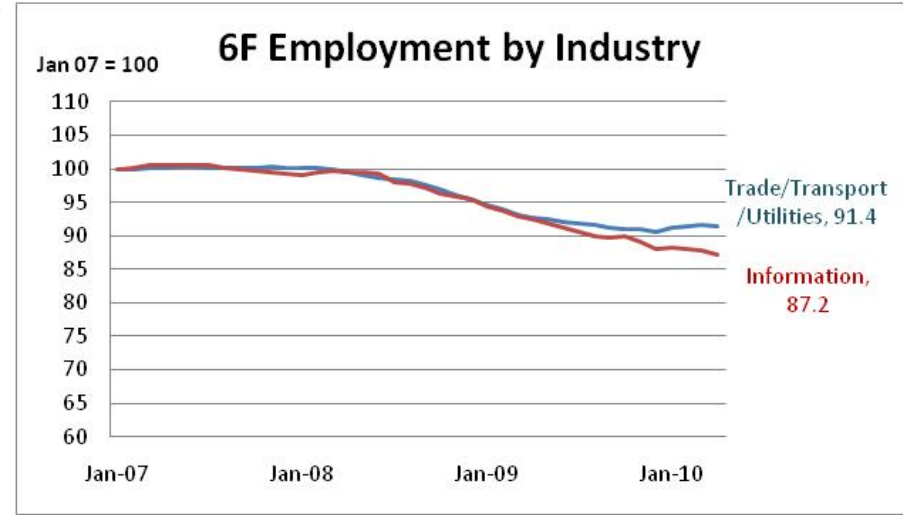
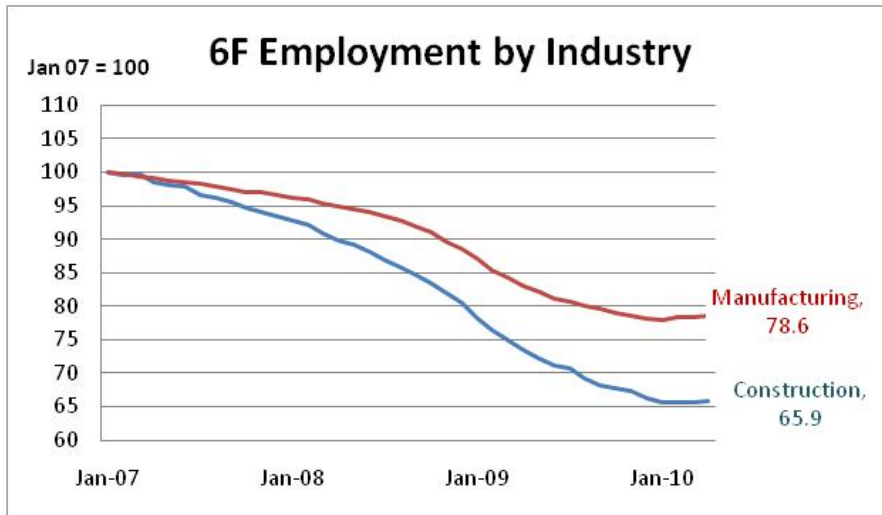
# And we have Higher Unemployment Rates



# That said, the Number of Unemployed Declined in April and the Labor Force Continued to Rise.



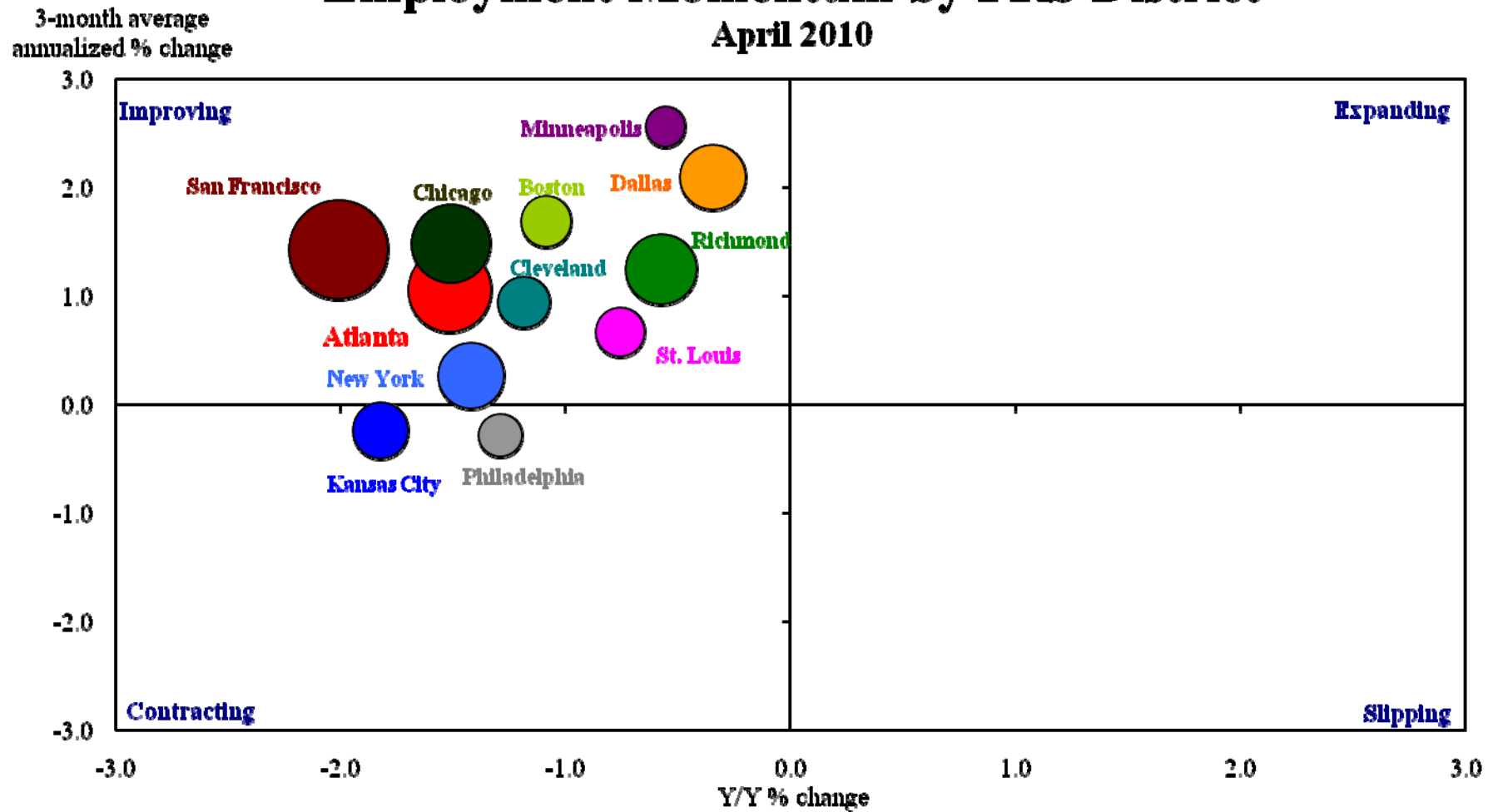
# Most Industries have stabilized.



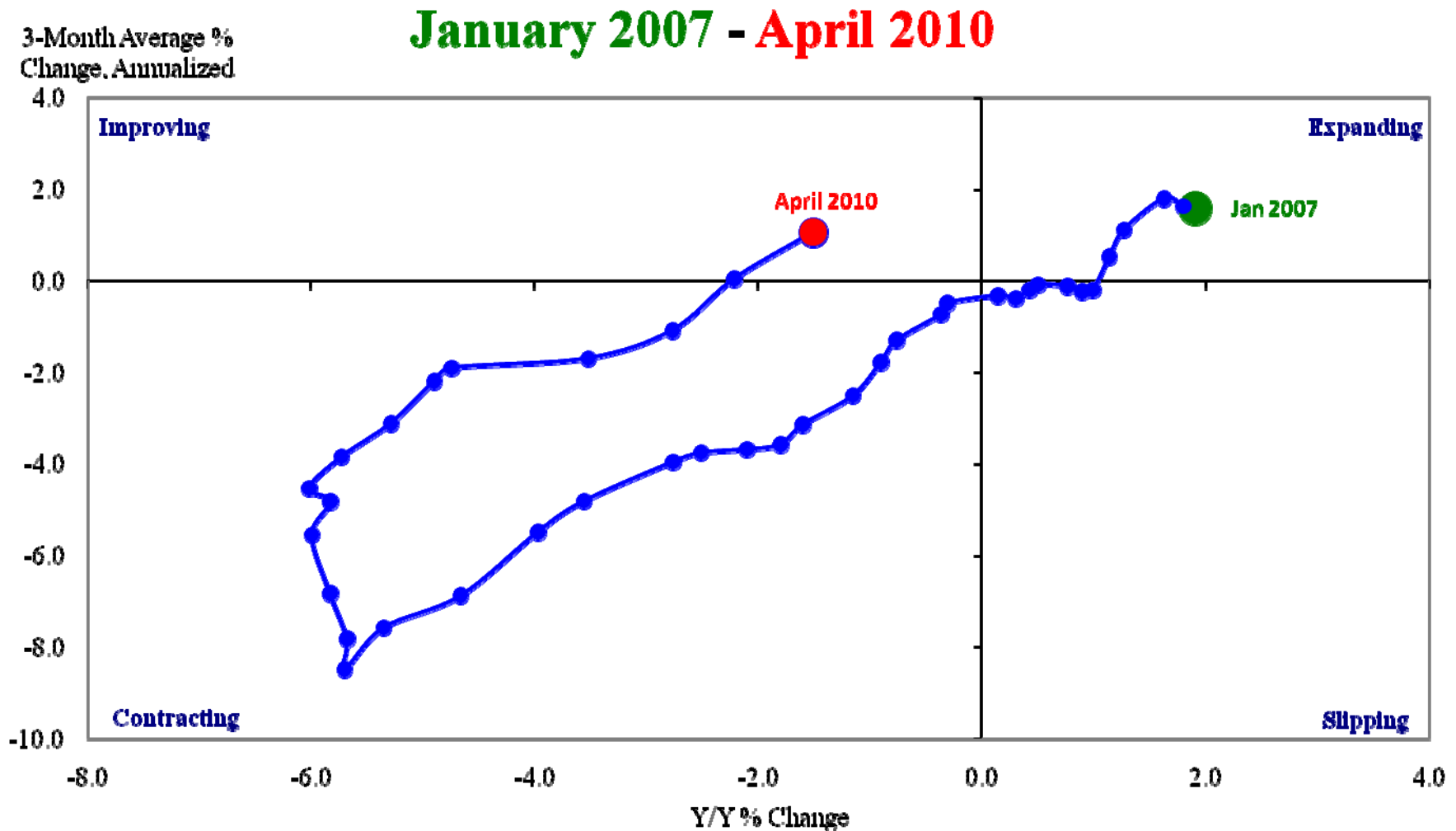
# The District is now in the “Improving” Quadrant . . .

## Employment Momentum by FRS District

April 2010

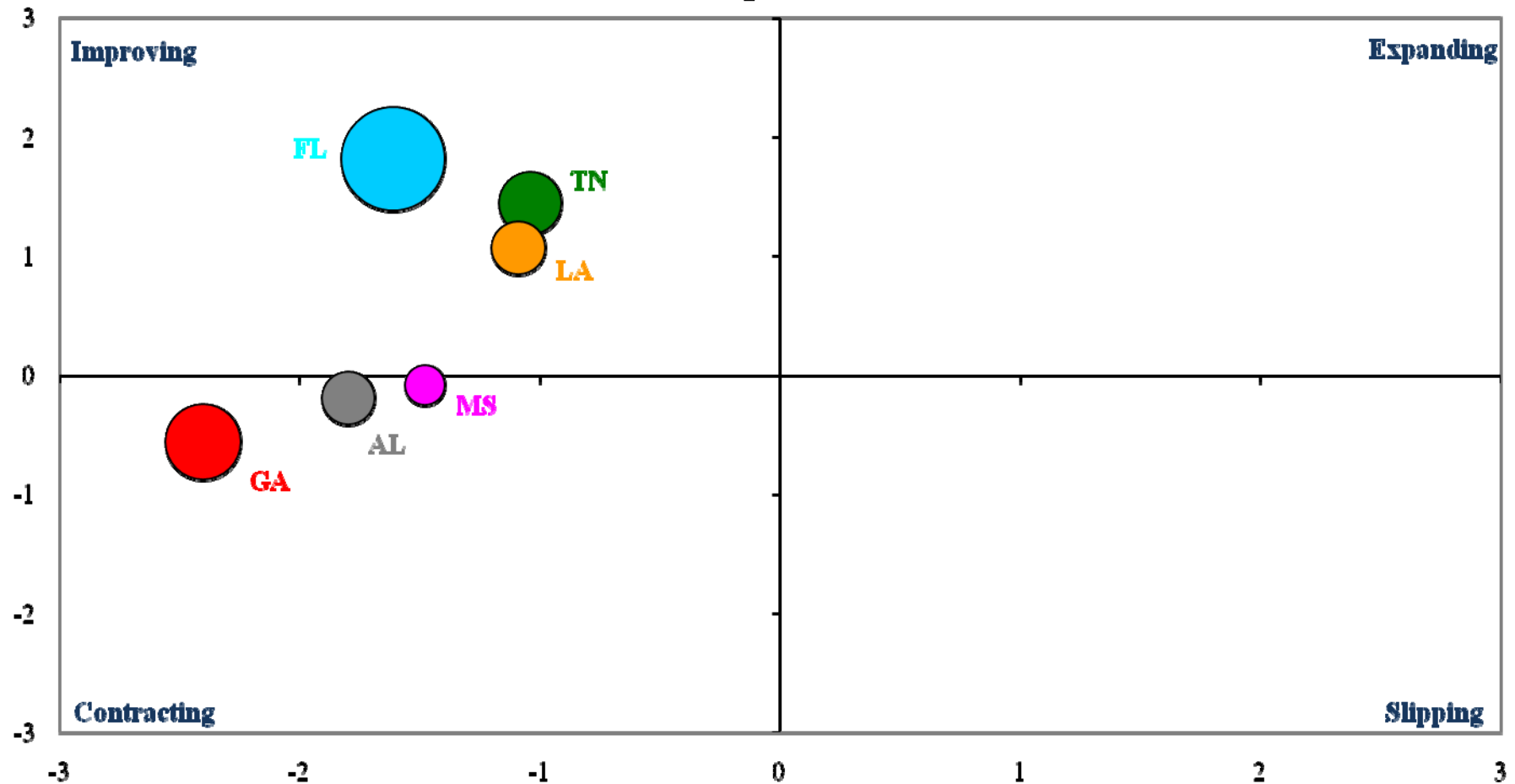


# The Region's Employment Momentum Track



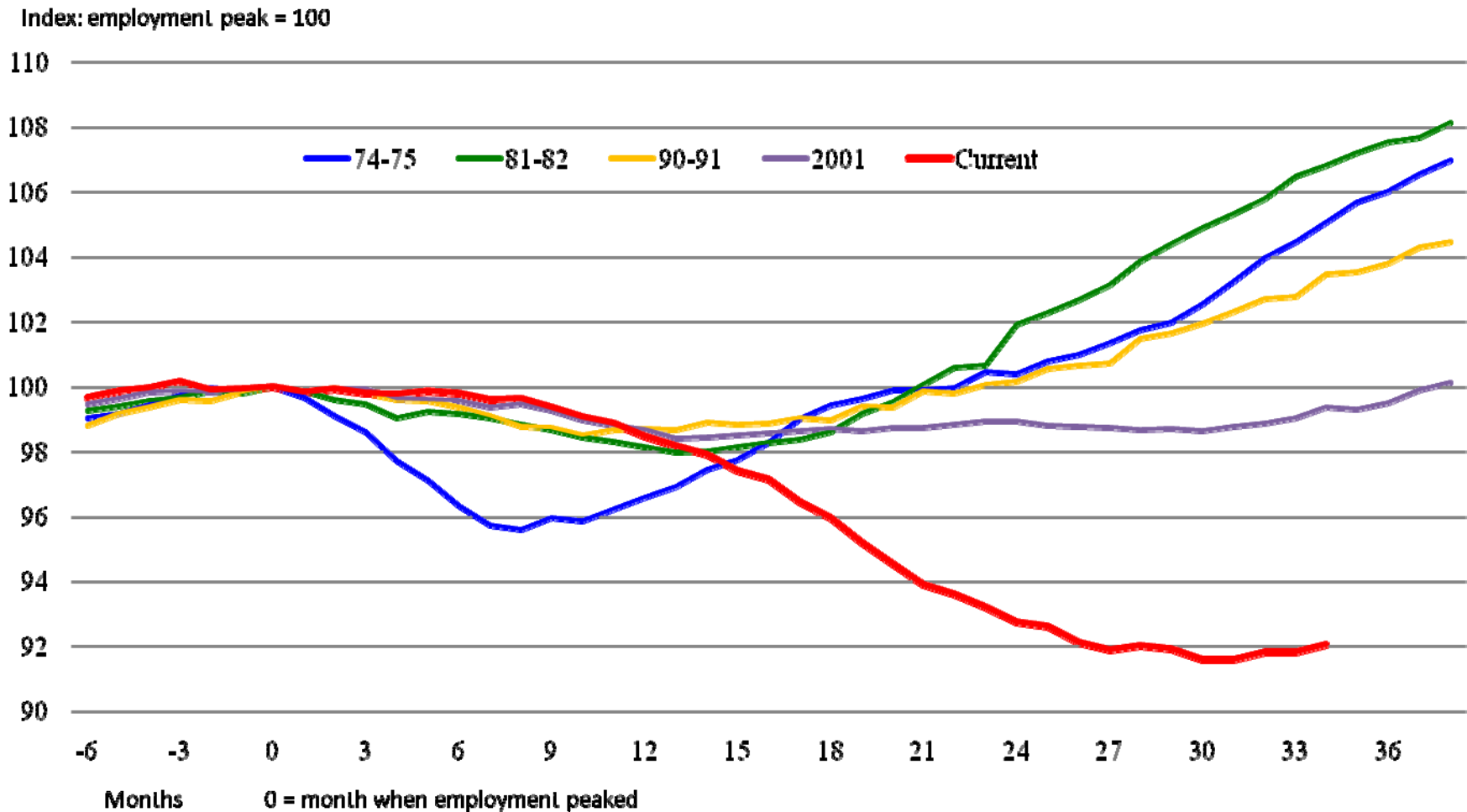
# The Region is Being led by Florida, Tennessee, and Louisiana. Georgia is the Weakest.

**6F Employment Momentum by State**  
April 2010

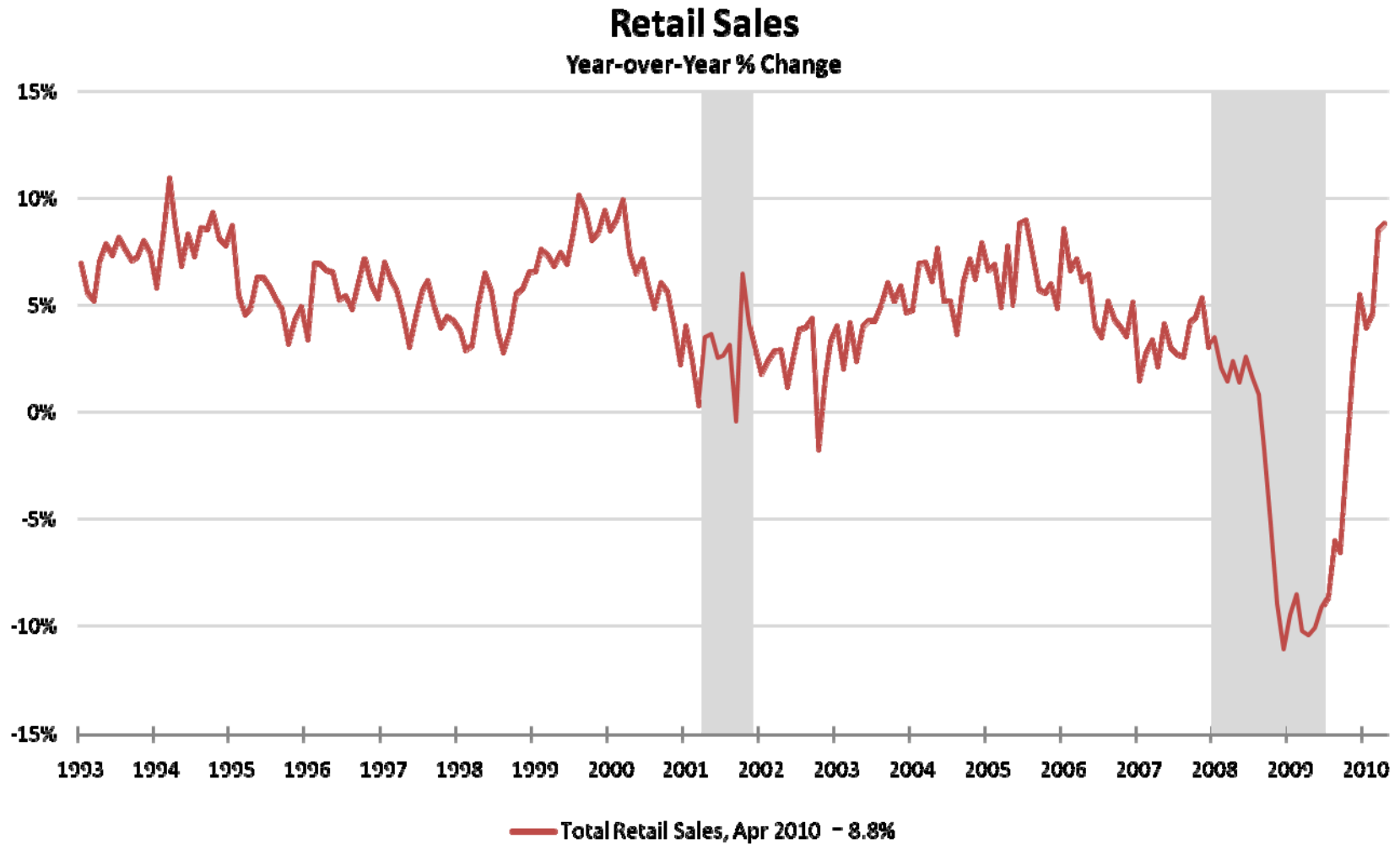


# The Level of Total District Employment Remains Well Below its Pre-Recession Peak.

## Nonfarm Payroll Employment in Sixth District States



# CONSUMER SPENDING HAS REBOUNDED STRONGER THAN EXPECTED.

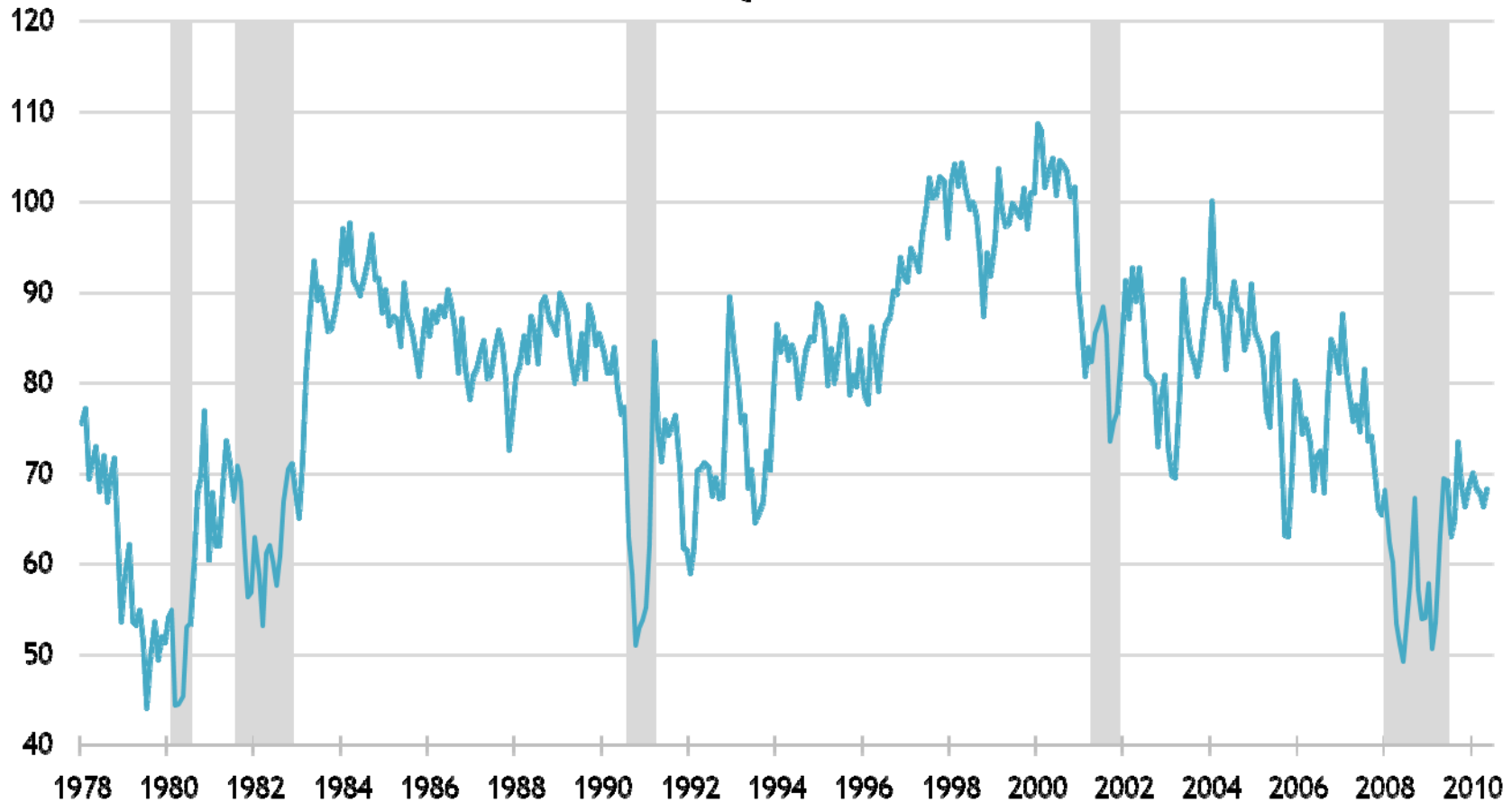


Source: U.S. Census Bureau

Assumes recession ended June 2009

# BUT EXPECTATIONS REMAIN MODEST.

**Reuters/University of Michigan Consumer Sentiment Index**  
1966Q1= 100



Source: Reuters/University of Michigan

Assumes recession ended June 2009

# HOME SALES APPEAR TO BE STABILIZING AT LOW LEVELS.

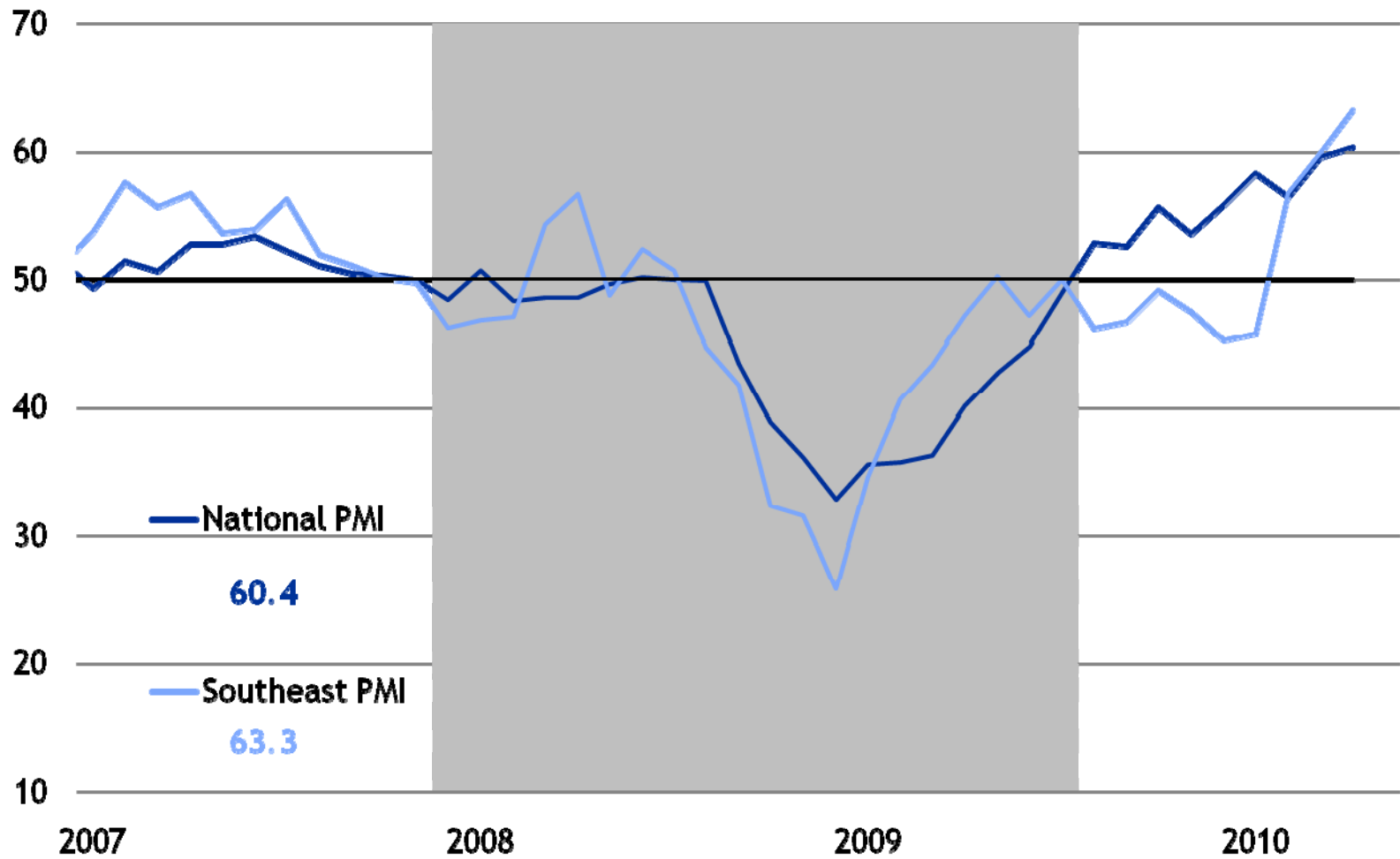
Alabama  
2005=100

Florida  
2005=100



## Southeast and National PMI

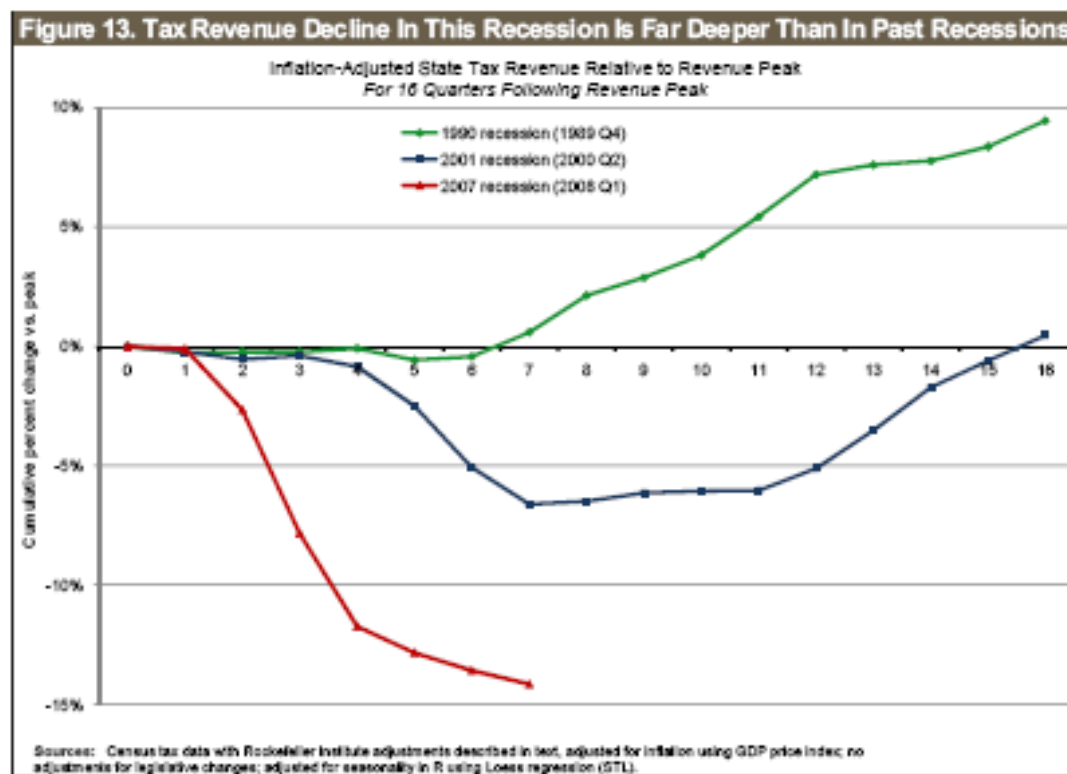
50 + Index Points = Expansion, through April 2010



Sources: Kennesaw State University,  
Institute for Supply Management

Assumes recession ended June 2009

# State and Local Budgets are Likely to Remain Under Stress for Some Time.



“A decline in states' tax collections for the fifth straight quarter suggests a long, slow fiscal recovery ahead, according to this State Revenue Report. While the decline in the final quarter of 2009 was not as steep as in previous quarters, preliminary figures for early 2010 show continued weakness.”

*Donald Boyd, Senior Fellow. Rockefeller Institute of Government.*

# Spillonomics: Not a National Event

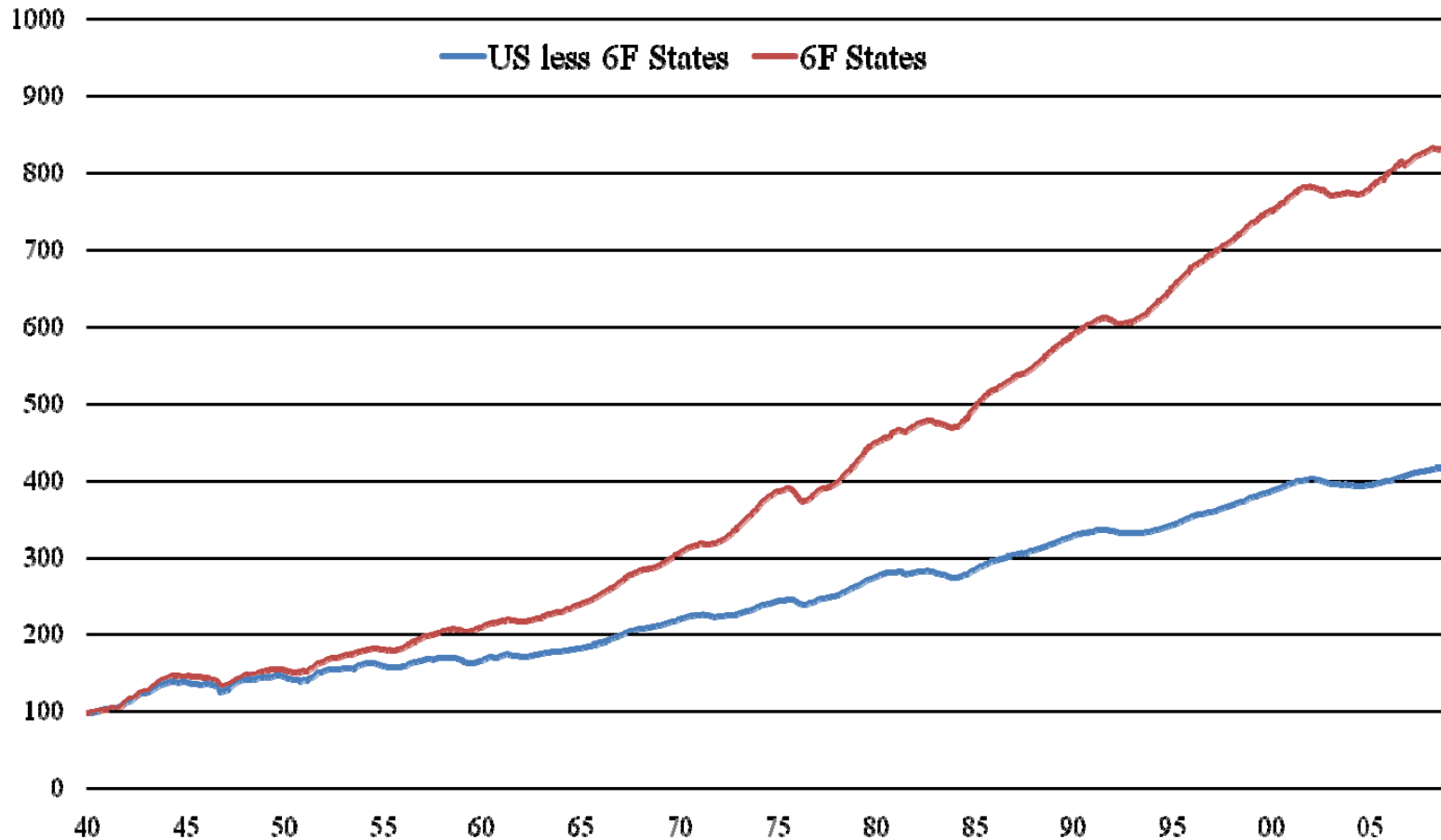
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- To date, this is a regional event.
  - For this to have national implications, the energy and transportation sectors would have to be affected.
  - So far, energy production has not been interrupted and shipping facilities remain unaffected.
  - Extension of the moratorium on new deep water drilling has not affected prices.
  - Tourism is the most exposed sector in terms of employment with just over 100,000 employees in Gulf Coast communities.
  - While we do not have hard data, we do have information from business contacts that point to scattered vacation cancellations.
  - Aquaculture (fishing, shrimp and oyster harvesting) were immediately affected.
- **Becoming more “National” every day.**

# The South Shall Rise Again (and again, and again).

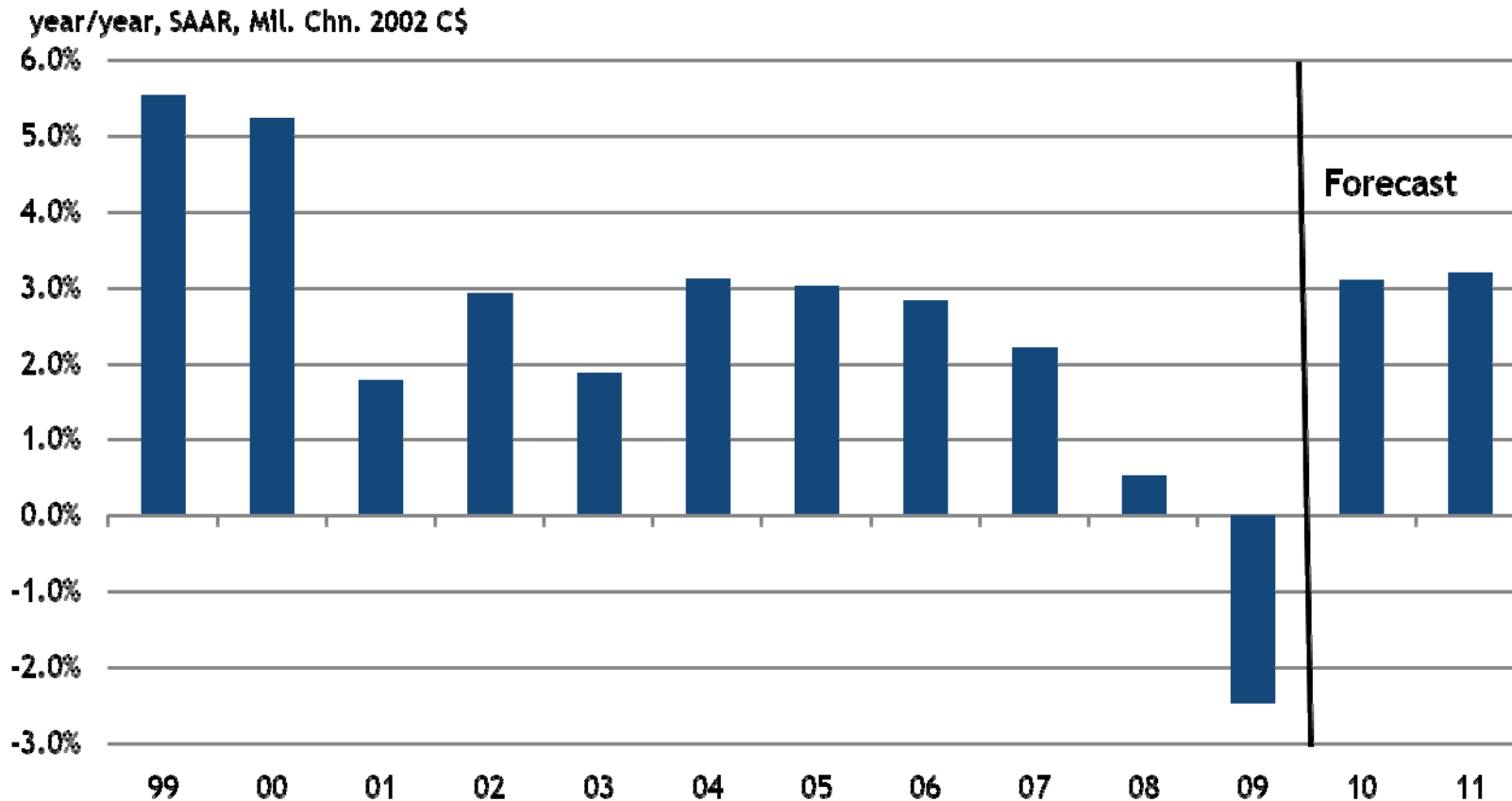
## Total Employment: 1939 - 2010

1939 = 100



Canada entered the global crisis in good shape.  
It's outlook appears less challenging than elsewhere.

### Canada: Gross Domestic Product



Source: Statistics Canada/Haver, IMF

# GFOA

## The Finance Officer's Role in Doing More With Less

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Forecasting the Future:  
What's in Store for Public Fund Investors  
June 7, 2010

Bob Eichem  
City of Boulder, Colorado



# Let's Put it to Work

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- Making sense of the data
  - Conflicting information
  - What should I do?
- What does it mean for the portfolio?
- Getting the message across
- Practical examples



# Making Sense of the Data

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- When you work among experts
  - The Duchess of Doom and Rosy Rick
- You may not be the expert but you are the one on the hook
- You may be challenged so be prepared



# Making Sense of the Data

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We wear many hats when using economic data



Portfolio management, negotiations, debt management, revenue projections, pensions, risk management

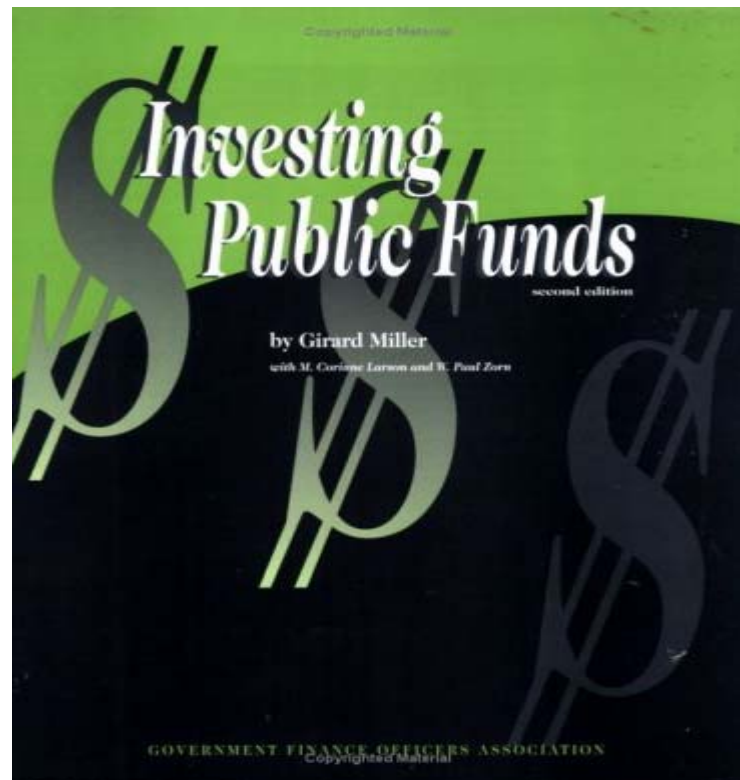
Today: Investments



# Making Sense of the Data

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How many copies of Investing Public Funds have you worn out?



# Making Sense of the Data

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## **Prepare a formal investment outlook p. 238 IPF**

- ID major forces and factors likely to influence the markets
- Record the present development, status, trend
- ID expected future scenarios
- ID factors that signal a change in the trend and the need to reconsider the investment strategy

# Making Sense of the Data

Item	Situation	Result	Conclusion
Fed Debt	Very high	Inflationary long run	In the future
Demographic trends	Aging	Spending on services	Less disposable spending
Fed fiscal policy	Loose	Inflationary long run	In the future
Depository sector	Challenged	Few loans	Slow economic growth
Election cycle	Mid term	Turmoil	?????????
Monetary policy	Easy	Inflationary long run	In the future
Treasury financing	Very High	Inflationary if not controlled	In the future
Yield curve	Normal	Rates up - steep	Interest rates up

# What Does it Mean for the Portfolio

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- Overall - When combined with the jobs sector, global debt issues, inflation at a 44 year low, and housing:
  - Slow long recovery
  - Great uncertainty
  - Interest rates will go up – when is the question
    - If caught in the wrong place by going too long with too much of the portfolio major unrealized losses
    - Active or passive investor at this time?
    - Active with part of the portfolio?



# What Does it Mean for the Portfolio

---

1. Return of principle has been acceptable
2. Times will be changing especially as budgets become even tighter
3. What is the investment horizon?

## **Our team strategy:**

- Keep our powder dry (not the time to take risks)
- Bar Bell – Overnight to 2 to 3 years
- Ride the yield curve down
- A few: One time calls
- Round lots for liquidity

# Getting the Message Across

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- Provide openness and transparency
- Document the basis of your projections
- You may be wrong but you had a plan based on appropriate analysis
- Post it online
- Refer to it in your investment reports
- Due to the volatility in the markets update your scan at least every three months.

# Examples of Putting it to Work

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Presentations: Present complex information in ways your audience understands

1. Headwinds and Tailwinds
2. Signs of an economic spring
3. The story of a fire training center



# Headwinds

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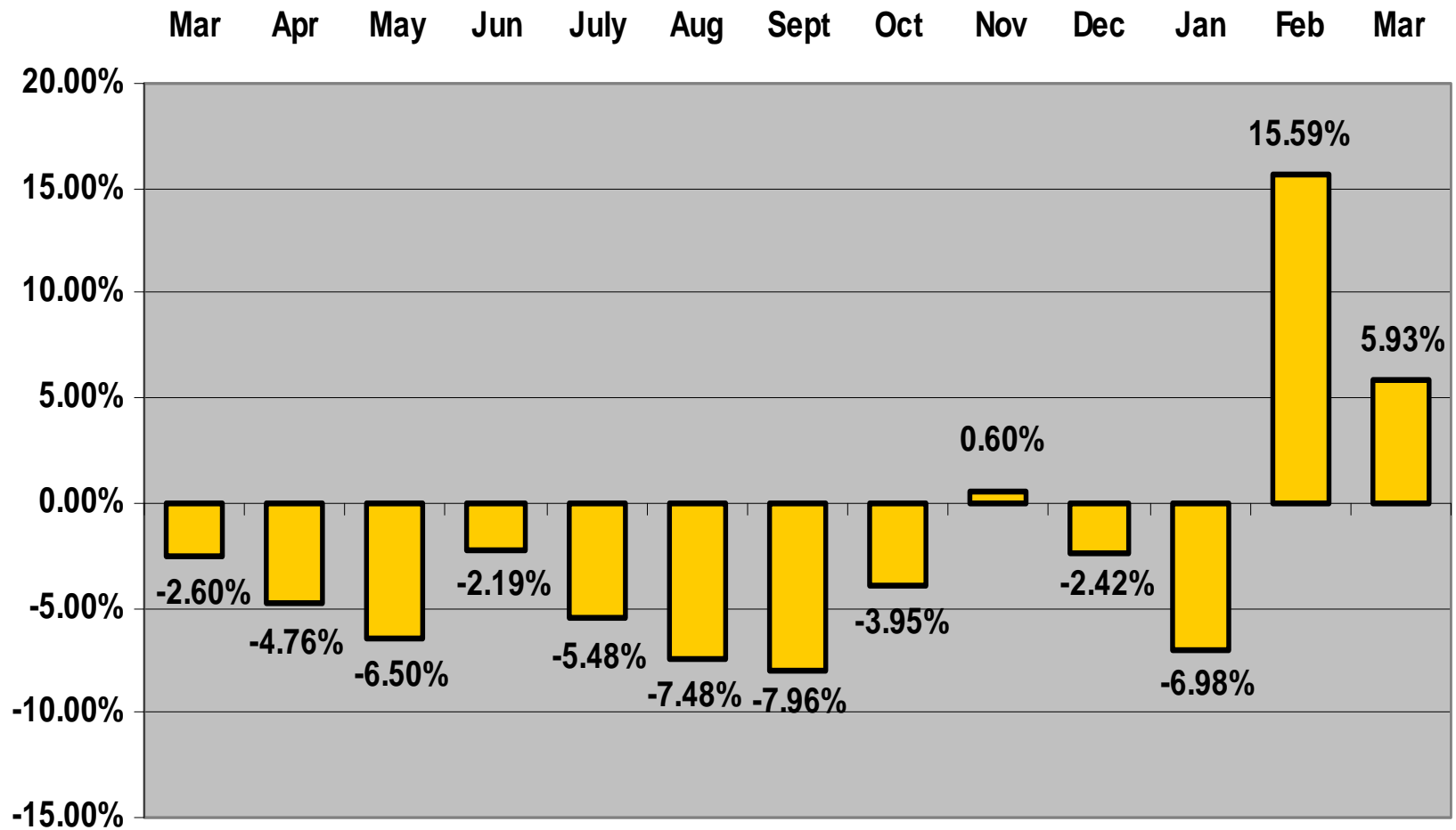
- Hiring continues to drag:
  - Nation up Colorado still down.
- Retail is not turning around as quickly as hoped
- Mountain States - small businesses often lead the way out of recession and they continue to have trouble finding financing (Brookings Institute)
- National areas recovering faster are more heavily reliant on exports

# Tailwinds

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- Colorado percentage point increase in unemployment was 5<sup>th</sup> lowest of 100 metro areas in the U.S.
- Consumer confidence improving
- Most recent survey finds businesses in the area more positive about growth in the coming year
- Early indications are there will not be a double dip recession.

# Signs of an Economic Spring?

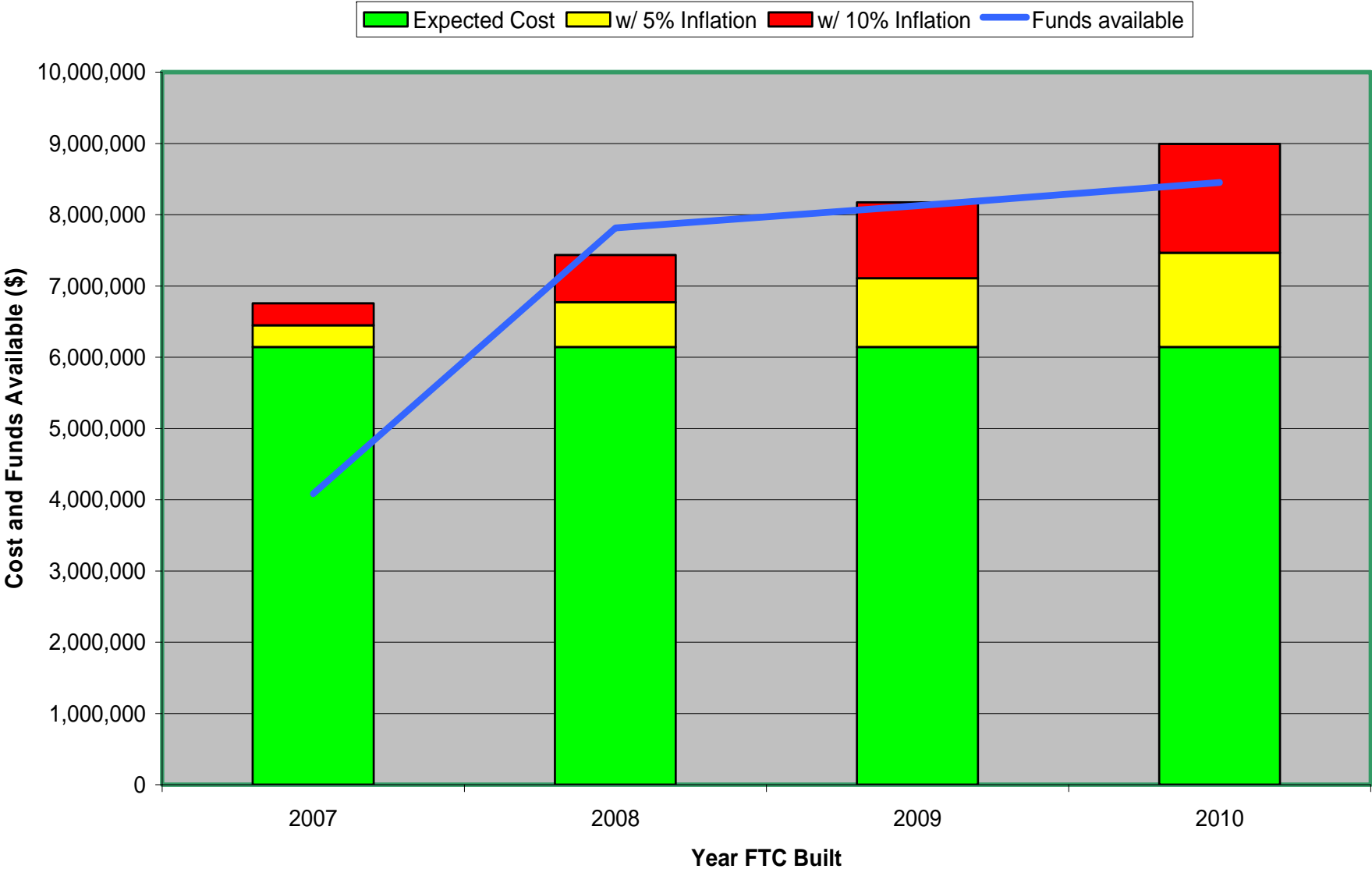


# The Story of a Fire Training Center

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- ❑ Old center at end of its life and lease running out
- ❑ County tax to build – one year 2001
  - Economy tanked not enough collected and cost of what it was in 2000
    - ❑ Direly needed and going nowhere
    - ❑ One year tax
    - ❑ Don't mess it up – last chance we will get
    - ❑ Make it understandable!

**Fire Training Center**  
**Bars Are Construction Costs Plus Inflationary Increases of 5% & 10% per Year**  
**Line Graph Represents All Funds Available Growing at 4% Per Year**





GATOPOLLO  
HIGHWAY TO HELL



GATOPOLLO  
STAIRWAY TO HEAVEN





# Thank You

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Presentation can be found at [gfoa.org](http://gfoa.org)

## Questions?